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World Business Newspaper http://www.FT.com WEDNESDAY DECEMBER 10 1997

WORLD NEWS

UK rejects new French bid for a compromise over 'euro-club'

The UK has rejected a compromise offer from French finance minister Dominique Strauss-Kahn over the creation of a new 'euro-club' of economic and monetary union members. Page 16; ECB warning, Page 2

Deal sought at Kyoto
Leaders of the US, Japan, Germany and the UK threw their weight behind last-ditch efforts at the Kyoto talks to agree the world's first legally-binding treaty to attack climate change. Page 14; Global dealers could beat pollution, Page 8

Prodi surprise
Italian PM Romano Prodi has surprised the country's political establishment by admitting there is a limit to how long he would like to stay in the job. Page 3

Quebec tires of debate
Quebeckers are tired of the debate over whether to separate from Canada and most are not in favour of a third sovereignty referendum, said an opinion poll. Page 6

Bosnia peace call
Ministers from the west and Russia called for a fresh push to consolidate peace in Bosnia, but argued over new powers for their Sarajevo-based "high representative". Page 3

German jobless up again
Eastern Germany's severe economic problems pushed the country's unemployment further above the 4.5m mark last month, disguising a modest drop in dole queues in the west. Page 2

French pension top-ups plan
Complementary pension funds for French private sector employees moved closer with endorsements from both Gaullist President Jacques Chirac and the leftwing government of Lionel Jospin. Page 2

China anger over dissident
China voiced its anger at President Clinton's meeting with the country's leading political dissident Wei Jingsheng, calling it "totally wrong". Page 4

Clash looms over cattle
European Commission plans for heading off a trade clash with the US over cattle derivatives were thrown into confusion when officials from EU states failed to back them. Page 3

Havel attacks government
President Vaclav Havel delivered a scathing indictment of the outgoing Czech government in his end-of-term speech to parliament, provoking prime minister Vaclav Klaus into an instant rebuttal. Page 2

ILO warns on Asian jobs
Asia's financial turmoil could bring "catastrophic" social consequences because there are few safeguards to protect millions of people who will lose their jobs, the International Labour Organisation warned. Page 4

Strike cripples Zimbabwe
Zimbabwe was hit by the most effective national strike since independence in 1980, as trade unions protested about a Z$2.5bn ($164m) tax rise to fund payments to war veterans. Page 8

Nigerian detainee dies
Shehu Musa Yar'Adua, Nigeria's former military vice-president and one of its most prominent political prisoners, has died in prison there aged 54.

Rise of the screen junkies
Information may be the "drug" of the 1990s, said an international survey, with many people in high-powered business jobs becoming "information addicts" and "screen junkies". Page 8

BUSINESS NEWS

French-Italian group to work with Hitachi on new microchips

SGS-Thomson, the French-Italian electronic chip manufacturer, and Hitachi of Japan are to work together on the next generation of microprocessors to be used in consumer electronics and multimedia applications. Page 17

Philip Morris, the tobacco and food group, said it would take a $630m charge to restructure its poorly performing Kraft Foods business, including cutbacks of 2,500 jobs over the next three years, many of them in Europe. Page 17

Scotia Holdings' chief executive David Horrobin is to step down to become non-executive director at the biotechnology company he founded in Canada in 1979 and took to the UK in the early 1980s. Page 17

Argentina became the first emerging market borrower to issue a dollar bond since the global markets crisis in October. The $500m offering was underwritten by Merrill Lynch. Page 6; Capital Markets, Page 28

Bell Atlantic, the US telecommunications group, sold back to Olivetti its 33 per cent of Infostrada, the Italian company's fixed-line subsidiary, for $43m. Page 18

H.J. Heinz, which last week announced the retirement of Tony O'Reilly as chief executive, reported a 6 per cent increase in net profits to $188.9m for the quarter to October 29. Page 18

Swiss Bank Corporation said it will go ahead with its plan to combine its Japanese investment banking business with the securities affiliate of Japan's Long Term Credit Bank in spite of the SBC merger with Union Bank of Switzerland. Page 21

South Korea approved the state takeover of two commercial banks and vowed to keep control of the Kia motor group amid continued financial turmoil. Page 4

Bouygues, the French construction group which also operates the country's third largest mobile phone service, is moving into fixed-line services with Veba of Germany and Telecom Italia. Page 17; Bolloré buys stake, Page 20

CGEA Transport, the French bus and train operator and a subsidiary of Compagnie Générale des Eaux, announced the SKr955m ($122m) agreed takeover of Linjebuss, Sweden's second-largest bus company. Page 20

OTE, Greece's public telecommunications operator, has completed its first acquisition abroad by agreeing to pay $142.5m for a 90 per cent stake in ArmenTel, the Armenian state operator. Page 20

Managers of the Omsk oil refinery, Russia's largest, said they would fight a government threat to seize the company over its $88m tax bill. Page 8

Aceralia, the Spanish steel group, generated so much demand for shares that co-ordinators of the initial public offering have raised the domestic retail tranche from 64.9 to 73.3 per cent of the total. Page 20

Egypt is to prepare its telephone company and four state-owned insurance companies for privatisation, and has approved setting up a second private mobile phone service. Page 8

Sonatrach, Algeria's state oil and gas company, is set to issue AD5bn ($85.4m) in five-year bonds on the domestic market. Page 8

Industry urged to unify in face of US competition

EU leaders call for aerospace shake-up

By Alexander Nicoll and Michael Skapinker in London, Robert Graham in Paris and Ralph Atkins in Bonn

Leaders of Britain, France and Germany yesterday invited European defence and aerospace companies to come up with proposals for a drastic restructuring of their industry.

In an unusual joint statement, Tony Blair, the UK prime minister, President Jacques Chirac and prime minister Lionel Jospin of France, and Chancellor Helmut Kohl of Germany, called on the companies to unify in the face of competition from larger US rivals.

The leaders called on British Aerospace, Aerospatiale of France and Daimler Benz Aerospace (Dasa) of Germany to produce a plan and a timetable by March 31 1998.

But in spite of their welcome, some of the companies made it clear they wanted clearer political undertakings. Big questions also remained about how integration could be achieved, especially with much of the French defence industry in the public sector.

The leaders said restructuring "should embrace civil and military activities in the field of aerospace, and should lead to European integration based on balanced partnership".

Though they stressed it was for industry and not governments to devise the solutions, they said they saw Airbus, the European civil aircraft manufacturer, as a potential base for integration.

Although none of the governments made explicit statements on the competition issues which might arise from defence mergers, they did undertake "to implement the necessary measures in national policies relating to this industry in order to facilitate restructuring".

Sir Richard Evans, BAe's chief executive, said: "We welcome the trilateral statement which confirms and reinforces the urgent need for a restructuring."

But Dasa said: "It's now up to the politicians to create the framework so that we have a clear view of the political environment in which this reorganisation will take place. The politicians need to support us by harmonising tax policies, social policies and military-procurement policies across Europe."

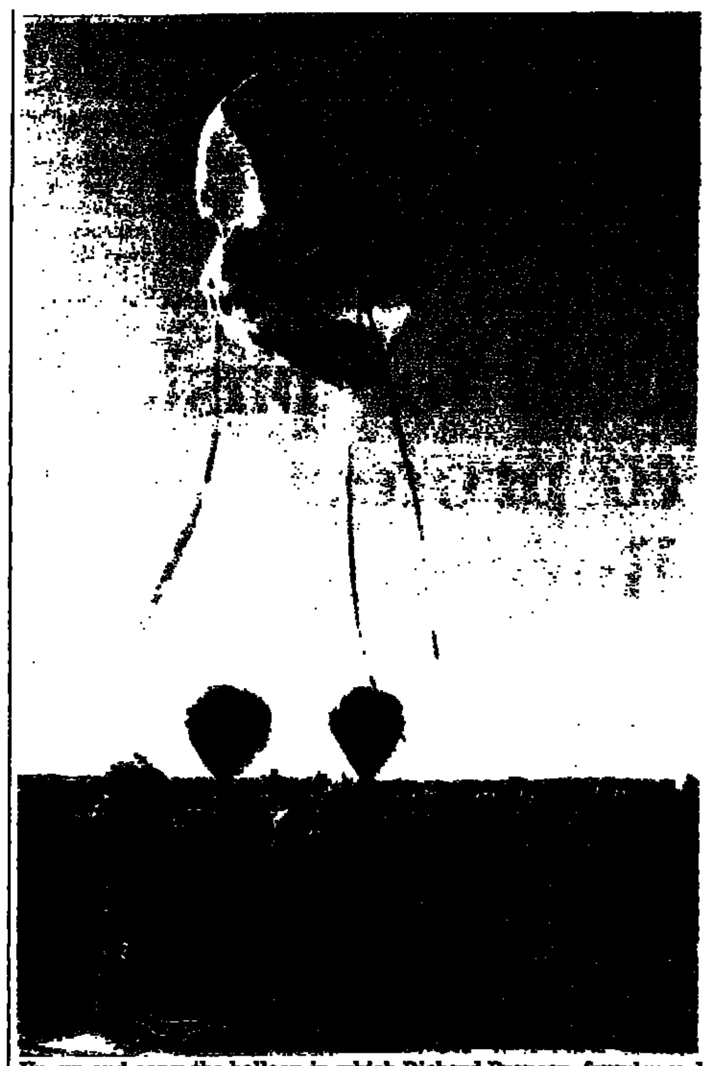
French officials underlined the political significance of the three countries' leaders throwing their weight behind the initiative and calling for collaboration of other European governments, likely to include Italy, Spain and Sweden.

A senior French official said: "Whether the companies are in the public or private sector, the main, if not only, client is the state, and this is the pressure governments can use to push ahead with integration."

Last week's nomination of Noel Forgeard, head of Matra Hautes Technologies, to be managing director of Airbus shows the French government's commitment to civil and military integration. He has spent the past decade in the defence business.

Yesterday's move also threw the spotlight on Dassault, the main contractor for the French air force, which remains hostile to losing its independence. It makes the Rafale combat fighter which will compete in export markets with the Eurofighter aircraft in which BAe and Dasa are playing leading roles.

Norbert Lammert, the German government's co-ordinator for aerospace issues, said owners, whether private capital or the state, should have equal legal rights and responsibilities.



Up, up and oops: the balloon in which Richard Branson, founder and chairman of Virgin Group, had planned to attempt a record breaking non-stop flight around the world yesterday broke its moorings and flew away across the Moroccan desert without the British tycoon or his crew aboard. Mr Branson has asked the Algerian air force to put "two or three bullets" in it to bring it down. Picture: Reuters

Oracle shares hit by troubled Asian markets

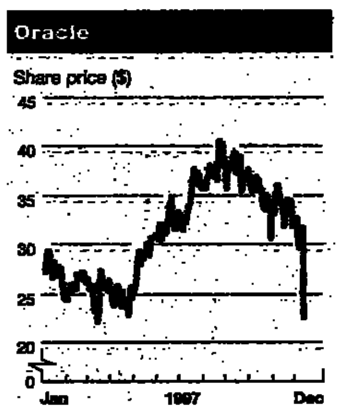
By Louise Kehoe in San Francisco

Shares in Oracle, one of the world's biggest software companies, fell 30 per cent yesterday in very heavy trading as investors responded to disappointing second-quarter results and warnings that its business in Asia was being disrupted by the economic turmoil there.

The strength of the dollar against falling Asian currencies had sharply reduced earnings from the region in the quarter, and economic problems in countries such as Japan and Korea were expected to lead to a decline in sales in the coming months, the US company said.

Oracle reported net income for the three months to November 30 of $187m, or 19 cents a share. This was slightly higher than in the corresponding period last year when net income was $179m, or 18 cents. Revenue increased 23 per cent from $1.3bn to $1.6bn.

Oracle



Source: Datastream/ICV

The results, reported several days ahead of schedule after the close of trading on Monday, shocked Wall Street analysts, who had been predicting earnings of about 23 cents a share.

Oracle's results may signal problems for other high-technology companies for which Asia has been a large and buoyant market over the past few years.

Like many US IT companies, Oracle gains a significant proportion of its revenues from Asia. The region represents about 20 per cent of total revenues and Asian markets had been growing at a rate of 60-80 per cent a year for the past five years. This growth had dropped sharply in recent weeks as Asian businesses scaled back their spending plans, Oracle said.

Some large projects were going ahead but most discretionary spending had been halted in Korea, Japan and other large Asian markets.

Jeffrey Henley, chief financial officer, said salesmen in Asia reported a spate of cancelled and reduced orders, probably because of economic uncertainty in the region. "Our Asia guys kept lowering their numbers right up to the end of the quarter."

Other software companies expressed surprise and said they had seen no decline in Asian sales. SAP, the European software group, said it had found "no changes in the marketplace" in recent weeks and was still planning on 50 per cent sales growth in the current quarter.

Oracle's second-quarter results were primarily affected by currency movements. Sales in its Asia-Pacific region rose just 1 per cent to $210.8m, measured in dollars, but would have risen about 15 per cent measured in local currencies.

The company's shares dropped by $9⅝, or 30 per cent, to trade at $22⅝ yesterday morning. Later in the session they picked up a little to trade at $23¾.

Other software stocks were down moderately, with Microsoft at $144⅞, down $1¼, and Computer Associates at $54⅝, down $2¼.

Lex, Page 16

Japan plans bond issue to boost ailing economy

By Gillian Tett in Tokyo

The Japanese stock market rallied 3.5 per cent yesterday, following a signal from the government that it was preparing to abandon its austere fiscal policy and inject large amounts of public funds into the country's stalled economy and ailing financial institutions.

Ryutaro Hashimoto, the prime minister, has instructed bureaucrats and politicians to "study" a proposal to issue Y10,000bn ($76.8bn) of government bonds to support the banking sector and possibly fund tax cuts. The bonds would be backed by privatisation proceeds.

If adopted, the plan would represent a U-turn in the government's fiscal stance. One of Mr Hashimoto's main goals has been to reduce the public deficit, and he has insisted the government would not use public money to address the country's deep financial and economic problems.

The apparent change reflects growing government concern about the weakness of Japan's economy. The Economic Planning Agency, which has claimed for the past 18 months that a "gradual recovery" was taking place, yesterday abandoned that view, saying in a report that the economy was at "a standstill".

Continued on Page 16
Observer, Page 15; Lex, Page 16

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8068.71	(-22.13)
NASDAQ Composite	1633.36	(-18.18)
Europe and Far East		
CAC40	2959.40	(+25.93)
DAX	4184.61	(-38.45)
FTSE 100	5177.1	(-10.3)
Nikkei	16,686.51	(+554.84)
US LUNCHTIME RATES		
Federal Funds	5.37%	
3-mth Treas Bills: Yld	5.229%	
Long Bond	99⅜	
Yield	6.127%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	106.1406	(105.641)
France: 10 yr OAT	100.70	(100.88)
Germany: 10 yr Bund	104.32	(104.53)
Japan: 10 yr JGB	109.14	(109.79)
NORTH SEA OIL (Argus)		
Brent Dated	$17.50	(17.765)

GOLD		
New York: Comex	$282.8	(287.9)
London:	$283.65	(287.85)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.65195	
DM	1.79315	
FFr	6.0010	
SFr	1.4576	
Y	129.72	
London:		
£	1.6457	(1.6479)
DM	1.7946	(1.7884)
FFr	6.0073	(5.9851)
SFr	1.4623	(1.4526)
Y	129.86	(130.56)
Tokyo close		Y 130.15
Sterling		
DM	2.9533	(2.9471)

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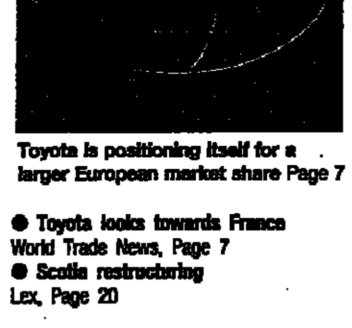

Toyota is positioning itself for a larger European market share Page 7

TECHNOLOGY

FINANCE

EMERGING MARKETS

Directive does not go as far as hoped but is still worthwhile, say energy users

EU gas market freeing-up welcomed

By Robert Corzine in London and Neil Buckley in Brussels

A decision by European Union energy ministers to open a third of the EU's $100m- a-year natural gas market to competition was greeted with cautious enthusiasm by the industry yesterday.

Large industrial energy users who have lobbied strongly for access to cheaper gas said the directive, which calls on EU members to open at least 20 per cent of their gas markets to competition within two years, did not go as far as they had hoped. But they welcomed the fact agreement had been reached.

"When you climb a mountain you feel a sense of achievement, even if the view from the top is sometimes a little disappointing," said an official of Ener-G8, a coalition of European energy-intensive manufacturing companies including BASF, Bayer, ICI, Dow Europe, Pilkington, Thyssen, Akzo Nobel and Mercedes-Benz.

The group said the EU's electricity directive adopted earlier this year had shown liberalisation happened more quickly than the minimum requirements of legislation.

Big exporters of gas to the EU also gave the directive a cautious welcome. Marit Arnstad, Norway's energy minister, said the Oslo government was "feeling generally positive" about the directive.

She said Norway's main concern about the status of its offshore export pipelines had been dealt with satisfactorily, but Oslo needed more time to study the proposed criteria for third-party access to those pipelines.

Norway has not ruled out the use of its veto, granted to it by its European Economic Area agreement with the EU, should it find the details of the directive unacceptable.

Gazprom, the Russian gas producer that supplies about a fifth of western Europe's gas needs, said it supported the directive as long as it resulted in a level competitive playing field.

But Russia should have been more involved in the deliberations, Gazprom added. "It is a bit strange: the gas is here and decisions about access to it are made over there [in the EU]," the company said.

Large international energy companies also welcomed the directive, though few thought it would make a big impact on their business.

Several predicted that the actions of large energy users would dictate the speed with which the European gas market would be opened.

One US oil group said a danger existed that the directive could result in a fragmented market, with countries such as the UK, Germany and the Netherlands generally embracing liberalisation, while others, such as France and Belgium, used the directive's derogations to delay competition.

Gaz de France, the French gas monopoly, said it needed to see how the French government intended to implement the directive before it could comment on its implications.

There was disappointment among gas distribution companies that the agreement gave EU states the right to restrict the access of competing distributors to the market, if that might make it difficult for an existing monopoly to fulfil its basic public service duties.

This requirement was insisted on by France as the price of its support for the overall deal.

Call for push to protect Bosnia peace

By David Buchan in Königswinter

Ministers from the west and Russia yesterday called for a fresh push to consolidate peace in Bosnia, but then fell to wrangling over new powers for their Sarajevo-based "high representative".

At the latest six monthly session of the Peace Implementation Conference, comprising the providers of peacekeeping troops and aid to Bosnia, ministers acknowledged "a huge effort" was still necessary to put the 1995 Dayton peace accords fully into effect.

Carlos Westendorp, the international community's High Representative in Bosnia, called for backing on further action to break deadlock between Moslems, Croats and Serbs. He complained that Bosnia still had no agreed flag, car licence plate or currency of its own.

But the three members of Bosnia's collective presidency agreed yesterday in Bonn on a format for a passport and a formula for citizenship. The measures still have to be agreed by the federal parliament in Sarajevo.

Mr Westendorp said he was not seeking from the international community "a new or revised mandate". But he asked for its "full support in the more vigorous exercise of my existing mandate", saying that he wanted to be able to decide the timing, location and chairmanship of the meeting of Bosnian institutions, to impose interim solutions and even to dismiss Bosnian officials blocking the Dayton Accord.

The US and Germany seemed disposed to give Mr Westendorp freer rein. But Robin Cook, the UK foreign secretary, took a more nuanced position. He suggested Mr Westendorp should follow up Nato forces' seizure of several Bosnian Serb television transmitters by reorganising television stations themselves, but he said, "the unelected High Representative" should use "sparingly" his power to dismiss people. Igor Ivanov, a deputy Russian foreign minister, said Moscow believed Mr Westendorp should do no more "within the scope" of his existing competence.

But the international community found unity in lambasting Bosnians for dragging their feet over lasting peace. "We don't want a reluctant partnership with Bosnians doing the minimum so as to avoid international pressure, but an enthusiastic and willing partnership," said Mr Cook. He said if – as Alija Izetbegovic, president of the Moslem-Croat Federation, said yesterday – Bosnia wanted foreign aid for as long as 10 years, it must show more transparency in its use.

Alija Izetbegovic, president of the Moslem-Croat Federation, surveys other delegates at the Peace Implementation conference in Königswinter, near Bonn, yesterday Reuters

Kok in warning over ECB row

By Gordon Cramb in The Hague

Disagreement about who should head the planned European Central Bank was in danger of putting monetary union under strain, Wim Kok, the Dutch prime minister, warned yesterday.

He is to press his counterparts at the European Union summit in Luxembourg this week for a swift decision on the post, while seeking to shore up support for the candidacy of Wim Duisenberg, the Netherlands' former central bank governor.

The Hague had expected Mr Duisenberg, currently president of the European Monetary Institute, the ECB's forerunner, to accede unopposed to the new job next year. But France last month put forward a rival in Jean-Claude Trichet, its top central banker.

"The longer this public debate goes on, the more tensions you will get about the introduction of the euro, and there are already tensions about who will be out and who in among countries wanting to join the single currency project," Mr Kok said.

"It would be my wish to have an early decision, if not at the weekend then at the earliest possible moment before May." That is when EU leaders are to choose entrants to the first round of Emu, and appoint the ECB chief. The issue is not formally on the Luxembourg agenda.

Mr Kok declined to discuss a suggested compromise under which Mr Duisenberg would hand over to Mr Trichet half-way through the eight-year term. Nor did he rule this out, saying only: "Our first priority is to get full support for Mr Duisenberg as first president of the central bank."

The Hague has sent mixed signals on the subject, and has been criticised by some for timidity amid early indications that it was prepared to do a deal.

Others such as Hans van den Broek, the Dutch EU Commissioner, have been quoted as saying the country was being too vocal. "He said one should not make too much noise – and that is good advice to Mr van den Broek," the prime minister retorted.

● The European Union summit in Luxembourg this week should not even attempt to settle the financial framework for enlargement, José María Aznar, Spain's prime minister, said yesterday, writes David White in Madrid.

"The message is: we will enlarge the union and we will have time to resolve other issues," he said.

Madrid is trying to stave off an EU commitment to budget ceilings which would call into question its future entitlement to regional and other structural funds from Brussels. These are expected to amount to slightly more than Pta1,000bn ($6.6bn) next year.

Spain's differences on this question with France, which wants to clarify the financial framework from the outset, were aired in discussions between the two governments in Salamanca last week. Mr Aznar brushed aside any suggestion that Spain might veto the enlargement process because of financial worries. The admission of new members was "a moral, political and historical imperative", he said, and the summit meeting on Friday and Saturday should give a favourable signal to candidate countries.

Jigsaw puzzle for defence world

Alexander Nicoll on delicate moves to piece together a fragmented industry

Governments have given an unusual political shove to European defence and aerospace companies, telling them to come up with a merger plan that will create a more streamlined industry.

Hardly anybody would disagree with the diagnosis of the governments – as the biggest purchasers – that the sector is much too fragmented and that its individual parts are likely in time to be swamped by much bigger US competitors.

Because of their size and their spending on research and development, Boeing and Lockheed Martin should increasingly be able to offer European defence procurement agencies deals they cannot refuse. Unless the European defence industry can counter them, it could die a slow death and hundreds of thousands of jobs across Europe could be lost.

Achieving the desired consolidation is, however, very difficult. It will require tough political decisions including agreements by governments to sacrifice jobs for the long-term benefit of Europe.

"Without political back-up an integrated European company cannot come into being," Norbert Lammert, Germany's state secretary for transport, acknowledged.

Yesterday's statement by the leaders of France, Germany and Britain signalled that they see a new European conglomerate being formed around Airbus, the civil aircraft manufacturer.

Use of Airbus as the base for a military arm would raise immediate questions about its shareholding structure, since Britain, which boasts the largest and probably most efficient defence companies, is unlikely to be happy with the 20 per cent which British Aerospace holds in Airbus – Aerospatiale and Daimler-Benz Aerospace have 38 per cent each.

British officials said there might be two alternative methods: to take the new Airbus corporate entity and adapt it to include military aircraft manufacture; or to create a new holding company of which Airbus would become the civil wing and a new merged entity would be the defence arm. In this way, a shareholding structure reflecting the strengths of the partners in the defence business could be created.

But the French defence industry would pose difficult problems, since the government seems unlikely to relinquish its controlling or blocking stakes in the main companies for some time.

British ministers noted that private and public sector companies were already collaborating in Airbus and the £42bn ($70bn) Eurofighter project. But there has been considerable doubt within the industry about whether a corporate structure involving private and public sector partners could work.

In addition, two of the three combat fighters being produced in Europe are from outside the companies named: BAe, Daimler-Benz Aerospace and Aerospatiale. While Eurofighter could be included in a new grouping, the French Rafale fighter is being produced by Dassault Aviation and the Gripen fighter by Saab of Sweden.

Clearly, there is a long way to go before a unified European military airframe maker can be formed.

While all companies involved said yesterday they welcomed the trilateral statement, they will certainly be expecting governments to follow through on their promise to "implement the necessary measures in national policies".

Among measures that might be sought are greater harmonisation of procurement policies; removal of bureaucratic obstacles to closer collaboration; and agreements among governments on security of supply so that each government can be sure of access to arms not made domestically.

Companies will also expect assurances that competition authorities will not put barriers in the way of closer collaboration.

Margaret Beckett, the UK trade and industry secretary, steadfastly declined to comment on competition issues and defence ministry officials made clear that, while they were prepared to accept that they could not have competitive tenders for every order, they would still expect to see competition in procurement wherever possible.

For companies, the most serious concern has been that if they created a European defence conglomerate, they would lose the domestic political influence that helps to win orders from national governments. They want the company to be seen to be British in Britain, German in Germany and French in France, much as has been achieved by Airbus itself and by companies such as Royal Dutch Shell and Unilever.

This will be the hardest aspect, but the most crucial, to achieve as discussions progress in the coming months.

See Editorial Comment

France moves towards top-up pensions

By Andrew Jack in Paris

Complementary pension funds for private sector employees in France moved closer yesterday with endorsements from both the Gaullist President Jacques Chirac and the leftwing government of Lionel Jospin.

They called for measures to encourage the growth of domestic investment in French shares, in comments which appeared largely inspired by public concern over takeovers by foreign companies and the rising proportion of capital held by international institutions.

In a speech to mark the 30th anniversary of the Commission des Opérations de Bourse, the stock market watchdog, Mr Chirac said the development of savings for retirement was "a necessity socially as well as economically" and called for a growing share of savings to be shifted from bonds to shares.

His comments echoed those in an interview in Les Echos yesterday of Mr Jospin, the prime minister, who stressed that employees in the private sector should be able to benefit from top-up retirement funds – already available to civil servants and the self-employed.

Both men stressed the development of equity investment to help reinforce French companies. "It is legitimate to keep the decision centres of our large companies in France," said Mr Chirac. "We will do so not by toughening takeover regulations but by giving French capitalism the financial means for its expansion."

However, a seed of doubt on the speed of pension fund reform was sown by Dominique Strauss-Kahn, economics, finance and industry minister, who emphasised alternative proposals from next spring to introduce tax breaks for life insurance contracts held for more than eight years which were at least 50 per cent invested in equities. He reiterated that draft proposals might be made for pension fund reform, following the report of a parliamentary commission he was establishing.

Mr Jospin outlined the limitations of any such changes by stressing his opposition to "a capitalisation system that destabilises the repartition system" on which the state pension scheme is based.

He said that the draft Thomas law passed by the previous centre-right parliamentary majority had been cancelled by the new administration because it limited the role of unions in managing the pension fund money, and provided "excessive" social and tax concessions.

Implicitly criticising the government's policies, President Chirac warned against excessively taxing investments and capital, and modifying tax breaks retrospectively. He called for reform to the country's banking sector and said it was "time to break definitively with the administered economy" of the past.

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NEWS DIGEST

German jobless total hits 11.8%

The severe economic problems of eastern Germany pushed unemployment for the whole country further above the 4.5m mark last month, disguising a modest drop in joblessness in the west. Unemployment overall rose by 11,000 to 4.526m in November after adjustment for seasonal variations, or 11.8 per cent of the workforce.

The relentless rise has highlighted the fragile state of the eastern German economy, which has been hit in particular by a slump in the construction sector. Across Germany, the pace of industrial rationalisation has led to fears that unemployment could soon top 5m.

However the latest rise was smaller than expected and followed a 19,000 increase in October. In western Germany, seasonally-adjusted unemployment fell by 4,000 in November to 3.05m or 9.9 per cent of the workforce, the first fall since March. In eastern Germany, the total rose 15,000 to 1.47m or 19.6 per cent of the workforce.

Ralph Atkins, Bonn

■ UKRAINE PRIVATISATION

Power tender planned

Ukraine came a step closer yesterday to holding the first international commercial tender of its three-year privatisation programme, for a 24 per cent stake in the second largest thermal power generating company in the country.

Volodymyr Lanoviy, head of the State Property Fund, announced that the government was seeking a consultant to prepare the tender – which is to include foreigners – for Donbassenergo, which last year generated 13 per cent of Ukraine's electric power. The choice of consultant will be announced on December 23, along with new regulations governing the sale.

Roughly 8,000 enterprises in Ukraine have been privatised since 1994 but these are only a small fraction of the country's productive capacity. Foreign participation has been virtually nil and the larger industrial sector enterprises are still majority state-owned, with a few exceptions.

The Ukrainian parliament could still vote to overturn the Donbassenergo tender, though it must do so by December 19. *Charles Clover, Kiev*

■ FRENCH PLANNING

Euro Disney runs new project

The French government yesterday approved a FFr4.6bn ($770m) urban development project east of Paris, co-ordinated by Euro Disney, and designed to create 22,000 jobs by 2015. Regional and local government will pay FFr758m for infrastructure and other investments, with the remaining FFr3.8bn coming from private sector investment including FFr200m from Euro Disney itself.

The project, to include a new railway station, shopping centre, shops, offices and housing, was provided for in the original theme park development plans with Euro Disney signed in 1987, and approved in principle last year.

The last study conducted by Epafrance, the authority which supervises the region, concluded that the original sums spent by the French state on supporting the development of the Euro Disney park had been recouped by 1994 in tax revenues.

Since the construction began in the late 1980s, the study said it had created directly or indirectly 37,000 jobs, and generated "value added" of FFr7.1bn in 1995 alone.

Andrew Jack, Paris

■ RUSSIAN POLITICS

Yeltsin carrot for parliament

President Boris Yeltsin yesterday continued his charm offensive against the Duma, the Communist-dominated lower house of the Russian parliament, telling parliamentary leaders he favoured a greater political role for the legislature.

The conciliatory attitude marked a sharp change from 1993, when Mr Yeltsin used military force to dissolve a rebellious Duma and then swiftly pushed through a new constitution granting the presidency vast powers and sharply restricting the rights of the legislature.

Yesterday, Mr Yeltsin tentatively backed a parliamentary plan to give the Duma a direct say in the formation of the cabinet. However, according to Gennady Selezniev, the Communist speaker of the Duma, Mr Yeltsin said the new parliamentary powers should come into force only after 2000, when his current term runs out.

Mr Yeltsin, whose personal intervention last week secured the passage of the 1998 budget in its first reading, also said he would push for rapid final ratification of the document. *Chrystia Freeland, Moscow*

■ RUSSIAN INDUSTRY

Win for shareholders

Outside shareholders at the Novolipetsk Metallurgical Kombinat, one of Russia's largest steel mills, won a key victory yesterday, when five of their nominees were elected to a nine-member board of directors.

The election marks a victory for the outside shareholders in one of Russia's most high-profile battles for shareholder rights. But the winners warned that the plant still faced the painful task of restructuring.

"It's an important victory, but one which should have happened two years ago," said Dmitry Bakatin, managing director of Renaissance Capital, a Moscow investment bank. "This is day one of a very difficult restructuring process. There is a lot of work ahead of us."

Oneximbank, another member of the outside shareholder group, immediately pledged to extend a $50m line of working capital to the troubled mill.

The outside shareholders, who also include Cambridge Capital Management, a Monaco-based hedge fund, and claim to own over 50 per cent of the shares, had portrayed the dispute as a struggle between western, market-oriented investors and Soviet-era red directors.

Chrystia Freeland

■ CZECH PARLIAMENT

Havel clashes with PM

President Vaclav Havel yesterday delivered a scathing indictment of the outgoing Czech government in his end-of-term speech to parliament, provoking the prime minister, Vaclav Klaus, into making an instant rebuttal.

Mr Havel, who is due to be re-elected by parliament next month, accused the government of believing arrogantly that it had completed the transformation from communism when it had left half the job unfinished. He made no direct reference to the party funding scandal that brought down the government at the end of last month but said an increasing number of people were disgusted by politics and that politicians who break the rules should be punished at the ballot box.

Mr Klaus refused to applaud at the end of the speech and gave a press conference afterwards in which he said it had been confrontational and had heightened political tension. Mr Klaus, a former economist, has been criticised constantly by the president since he broke up Mr Havel's pro-democracy movement to found the centre-right Civic Democratic party, which has been in power since 1992.

The president said the transformation process had stopped halfway, "possibly the worst thing that could have happened to it" and that "it is high time that our economic transformation caught a second breath".

Robert Anderson, Prague

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Prodi looks beyond his 'transitional' mission

By James Blitz in Rome

Romano Prodi has surprised Italy's political establishment by admitting that there is a limit to how long he would like to stay as prime minister.

Although Mr Prodi has often been regarded as the first post-war prime minister whose administration could last a full five-year term, he has admitted in a television interview that he sees his task as a "transitional" one – and that it "will not last very long".

Interviewed on Rai, the state television channel, on Monday night, Mr Prodi was asked whether he was planning to stay long at the Palazzo Chigi, the prime ministerial headquarters in Rome.

"As long as I still have to carry out my task," he replied, "which is a task of transition and is historically very important". He described the job as "taking Italy into Europe, bringing together a divided country and uniting it".

Claiming that his task was like "crossing the Red Sea," he added: "I think it will not last very long. Then my function is over."

Several Italian newspapers yesterday claimed that Mr Prodi could be planning to stand down in the middle of next year when Italy hopes – and expects – to have gained formal approval to enter the European single currency.

Such a suggestion was comprehensively denied yesterday by the premier's office. A Palazzo Chigi official claimed there was nothing valedictory about the interview at all and that the sense of Mr Prodi's comments had been misinterpreted.

But some newspapers yesterday saw Mr Prodi's comments as an early sign that he might consider standing for president – a job which is expected to be filled by direct election for the first time in 1999. This holds out the possibility of him making way for Massimo d'Alema, the leader of the Party of the Democratic Left (PDS), to become prime minister.

Those making this interpretation noted that Mr Prodi said in the interview that Italy needed to move to a system where the leader of the party with the largest following in parliament – currently the PDS – took the premiership.

Mr Prodi came to power last year as the political figure who could bring together the various forces under the Olive Tree coalition – but his own party is not as large as the PDS.

In a compliment to Mr d'Alema – with whom he has had uneasy relations in recent weeks – Mr Prodi said that he saw him as "a serious candidate in the long run" for the premiership. "I don't think this a question of someone breathing down my neck," he said. "This is the way things happen in a democracy."

Russian oil plant to fight seizure

By Chrystia Freeland in Moscow

Managers from Russia's largest oil refinery said yesterday they would fight a government threat to seize the company as punishment for its $88m tax bill.

The refinery's defiance is the latest act in the financial drama which has gripped Russia over the past few weeks, as the cash-strapped Kremlin has sought to extract taxes from reluctant companies.

Alexander Meling, director of the Omsk Oil Refinery, said the Kremlin's ultimatum could led to closure of the plant, with disastrous consequences for the Siberian province where it is located.

If the government decision was "really about the sale of the plant, it means the plant will shut down," Mr Meling said. "To stop fully producing in a region like Siberia during the winter would mean death."

Mr Meling and officials from Sibneft, the vertically integrated Russian oil company which owns the refinery, said they would fight the threat in the courts and by lobbying the local authorities in Omsk.

They insisted that the government's decision this week contradicted a previous agreement with the refinery.

The fierce reaction follows an order by the Temporary Emergency Commission for Strengthening Tax and Budget Discipline.

On Monday the commission, whose acronym matches a feared Bolshevik branch of the secret police, voted to seize the assets of the Omsk refinery because of its massive tax bill, estimated by one investment bank to be $88m.

The commission, which announced it would "arrest" the assets of the company and use them to pay off its tax arrears, was established last year to promote Russia's lacklustre tax collection.

EU plans for US beef deal thrown out

By Michael Smith in Brussels

European Commission plans for defusing a trade clash with the US over cattle derivatives were thrown into confusion last night after officials from member states failed to back them.

The 20 commissioners will consider options which include a postponement of the ban, which would prohibit use of the cattle parts most at risk of carrying the BSE mad cow disease at their weekly meeting today. The ban is due to take effect from January 1.

The Commission decided on the ban last July with the support of only seven member states but was shortly afterwards threatened with a trade dispute by the US.

The ban could block billions of dollars of US pharmaceuticals and cosmetics exports to Europe. Most pharmaceutical and cosmetics contain derivatives of tallow or gelatin, produced by boiling animal carcases, usually including banned cattle parts, called specified risk materials (SRM).

The US insists it is free of BSE and therefore should escape the ban. The Commission has rejected this proposal but last week proposed a piecemeal solution involving temporary exemptions from the rules for certain products. Under the plan:

- Pharmaceutical products approved for marketing after the start of 1998 would not be allowed to use SRMs in their manufacture, but those already approved would be be given exemption to use SRMs until January 1999 to allow industry time to adapt.
- Existing products and those manufactured during the transition period could continue to be sold until expiry of their shelf life.
- Certain medicines using SRMs would have a longer transition period, until the end of 1999.
- Derivatives of tallow would be approved for use provided they were heat-treated by one of three approved methods.

When representatives of the 15 member states met yesterday in the EU's standing veterinary committee they failed to take an expected vote on the proposals. This suggests the proposals could not command a bare majority. That does not rule out the possibility that the proposals could be adopted at a meeting of farm ministers next week, but it makes it less likely.

With the January 1 deadline approaching and the Commission preparing to wind down for the Christmas break, time is running out to find a solution before the ban is implemented.

Choice of 'wise men' a test for unions

Robert Graham on a medieval trial of strength for French labour organisations

The elections for members of an ancient system of labour tribunals are today the chosen ground for a major test of strength among France's main trade unions.

The tribunals – known as *conseils de prud'hommes* (councils of wise men) – date back to the late 13th century, and now mainly deal with minor problems relating to dismissals. Although employees and employers are equally represented on the 271 councils, interest centres on the contest between the unions for their share of seats.

The unions are in crisis and only represent 9.7 per cent of the workforce. Even this small proportion distorts the picture, since they are afraid to admit that a sizeable proportion of their members are no longer in active employment but pensioners.

Nevertheless, because the relevant *prud'hommes* have to be union representatives, the elections offer a chance to the unions to demonstrate their legitimacy. A total of 14m registered wage earners are entitled to vote.

But with such a large number able to participate, those outside the union movement feel these elections confer a state-sponsored and spurious legitimacy on people who do not really represent them.

The government pays for the electoral propaganda, and in addition spends some FFr40m ($6.7m) annually on training councillors and a further FFrs75m on training union officials to hold public office.

Critics of the system also say the elections permit unions to exercise a greater say in French life than their declining strength merits. Such views are borne out by the growing abstentionism in the polls, which are held every five years. Over the past two decades the level of abstention has almost doubled to 60 per cent.

"These elections should show clearly the new balance of forces within the trades union movement as old sources of employment decline and new opportunities open up in the services," says Michel Caron, of the CFDT, one of the three main federations.

The CFDT, which is headed by Nicole Notat, an energetic and popular 50-year-old, has done more than its rivals to attract new recruits in service industries. The other unions that dominate the scene are the CGT, the oldest federation, traditionally controlled by the Communists, and Force Ouvrière (FO), which broke away from the CGT in 1947.

The divisions among the three essentially evolved from the cold war, FO being created with US trade union assistance as a radical opponent of the CGT, while the CFDT was formed in 1964 as a Christian Democrat-orientated group.

The CGT has been strong in industry and the public sector, but has been drifting as industrial employment declines and the old confrontation between labour and capital is transformed by deregulation and globalisation.

As for FO, the fall of the Berlin Wall removed part of its rationale as an opponent of the CGT, and Marc Blondel, its vociferous 59-year-old leader, looks ever more like an out-dated dinosaur. Elsewhere, other unions have sprouted, especially representing groups like teachers in the public sector.

If the CGT share of the vote falls significantly from its 33 per cent in 1992, its loss of support will be underlined. The same applies to FO, which captured 20 per cent of the vote last time. However, Ms Notat will need to improve on the CFDT's 23 per cent if she wants to demonstrate that she bears the banner of modernising trade unionism in France.

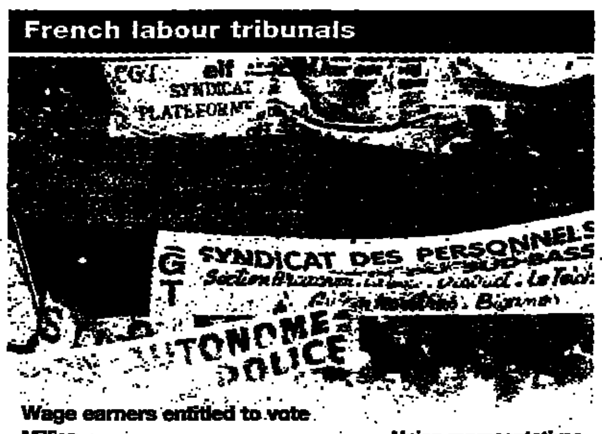
Beyond this, the relative strengths of the three will determine in part how the government's plan to introduce a 35-hour week is negotiated by and with the unions. The CGT and FO are more militant in their demands on reducing the working week, especially over overtime. They also want to negotiate at a national level while the CFDT believes the 35-hour week can best be negotiated locally, allowing individual companies more flexibility.

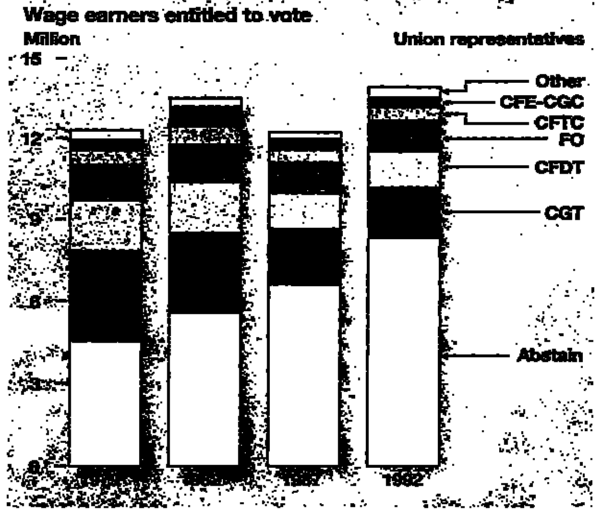
The CFDT fears the government's plan could enable employers to raise productivity without job creation and with lower effective wages.

All this politics sits awkwardly on top of the venerable institution of the *prud'hommes*. Almost 98 per cent of the 200,000 cases brought each year are by employees. They usually relate to contractual failures in dismissals or disputes about pay entitlements.

The odds tend to be stacked against the employers even if they have equal representation. However, in the appeals process, 40 per cent of cases are brought by employers since the employees do not wish to wait the usual six to eight months for a judgment.

French labour tribunals





S Korean government pledges to retain control of Kia motor vehicle group

$2bn prop for ailing Seoul banks

By John Burton in Seoul

The South Korean government yesterday approved the state takeover of the nation's two weakest commercial banks and vowed to keep control of the Kia motor group amid continued financial turmoil.

The government will inject a total of $2bn into Seoul-Bank and Korea First Bank for a 59 per cent shareholding in both.

New rights issues by the banks will be swapped for shares of state companies or directly purchased by the government.

The government, worried about a new round of big bankruptcies following that of the Halla shipbuilding group last weekend, is seeking to prop up the troubled banking system instead of shutting down banks weakened by a string of corporate collapses this year.

Seoul had been pressed by the International Monetary Fund to close the two banks soon, under the terms of its $57bn rescue package. But it refused because of fears that this would further restrict corporate lending and cause a run on deposits.

The capital infusion by the state into two of Korea's biggest banks would allow them to meet reserve requirements set by the Bank for International Settlements. The failure to meet such standards would lead to bank closures under the IMF bail-out terms.

Analysts said the state rescue of the two banks appeared to violate the spirit, if not the letter, of the IMF terms governing the restructuring of Korea's financial sector.

But the government said it planned to sell its bank shareholdings to the public at a later date.

Finance ministry officials also said the state would keep control of Kia, which was nationalised in October after the group, Korea's third-ranked carmaker, went bankrupt.

Speculation that the government might sell Kia was prompted by Daewoo's purchase of Ssangyong Motors on Monday to save it from threatened bankruptcy.

Analysts warned that the easy financing terms for Daewoo's takeover of Ssangyong could put new strains on the banking system as Ssangyong's creditors must bear the brunt of the deal.

Payment on the principal of Ssangyong's $3bn debt will be delayed up to 10 years, while interest payments will be set at below-market rates. "It's just loading the weak banks with more liabilities," said Henry Morris, managing director for Coryo International.

"The government is up to its old tricks of using pliant banks to support industry," one foreign banker claimed.

Any possible pressure by the government for Ssangyong's creditor banks to accept easy financing terms could violate the IMF condition banning state intervention in lending decisions.

Worries about more corporate bankruptcies amid tight liquidity caused the Seoul bourse to fall by 6.5 per cent to 388 points yesterday.

Corporate interest rates surged to nearly 25 per cent, six times the inflation rate. The Korean currency, the won, dropped to a new record low of Won1,460 to the US dollar on worries about Korea's ability to meet short-term debt obligations.

Malaysia ends fight for low interest rates

By James Kynge in Kuala Lumpur

Malaysia signalled yesterday that it was abandoning its struggle to keep interest rates artificially low, succumbing to mounting inflationary pressures brought on by the precipitous decline of its currency, the ringgit.

The deputy finance minister, Affifuddin Omar, said the government would leave market forces to determine interest rates.

Bank Negara, the central bank, has been pumping liquidity into the banking system for months to keep rates relatively low.

The loose credit policy was intended to forestall bankruptcies among heavily indebted companies. But in a policy change last week, Malaysia announced a sharp austerity package and declared that no business group, no matter how good its political connections, would be bailed out.

The latest policy shift, if it is implemented, would have a hefty impact on corporate Malaysia. Total domestic loans are expected to amount to about 170 per cent of gross domestic product this year, the highest in south-east Asia.

One top corporate executive said that if the base lending rate rose above 12 per cent, several corporate bankruptcies could occur.

A base lending rate exceeding 15 per cent would be "disastrous", he added.

Banks' base lending rates yesterday were generally above 10.2 per cent. The three month interbank rate, on which other rates are calculated, was 9.09 per cent, compared with an average of 7.3 per cent last year.

In spite of government directives, loan growth has remained at an annual rate of nearly 30 per cent in recent months.

Intensifying inflationary pressures brought on by the ringgit's decline have also made it inevitable that the government would have to allow rates to rise, economists said.

Food prices have begun to soar, despite an administrative ceiling on the price of cooking oil and official exhortations to retailers not to raise prices.

NEWS DIGEST

Suharto rumour hits currency

Indonesia's battered rupiah lost 10 per cent yesterday on rumours that President Suharto had died, as brokers suspected foreign exchange traders of spreading panic to push the currency down further. Murdiono, Suharto's state secretary and de facto spokesman, yesterday said Mr Suharto, 76, was healthy and merely resting. The president took a 10-day break starting Saturday after his return from a hectic trip through South Africa, Canada and Saudi Arabia.

The rupiah slipped Monday upon rumours that Mr Suharto had visited a hospital in southern Jakarta and nose-dived yesterday as word got out that he had died. People yesterday rushed to withdraw bank deposits to buy dollars. The rupiah fell to an all-time low of 4,625 to the US dollar, from 4,141 on Monday and down 47 per cent from July.

Traders said they suspected colleagues in Singapore of spreading the rumour to push down the currency just as Indonesian companies were struggling to pay off hard currency debts. *Sander Thoenes, Jakarta*

■ CHINESE DISSIDENT

Clinton meeting irks Beijing

China yesterday voiced its anger at US President Bill Clinton's meeting with Wei Jingsheng, China's best known political dissident, describing the meeting as "totally wrong".

"The Chinese side expresses its strong indignation and firm opposition to the meeting," Tang Guoqiang, a government spokesman, said yesterday.

Mr Clinton met Mr Wei for just over half an hour at the White House on Monday, less than a month after Mr Wei was released from prison in China on medical parole and sent to the US for treatment. Mr Wei, who has campaigned for democracy in China, had been in prison for all but six months of the last 18 years until his release.

China yesterday repeated its description of Mr Wei as "a criminal who has attempted to overthrow the Chinese government and endanger the state".

Following his meeting with Mr Clinton, Mr Wei said that he had warned the US president not to be "deceived" by the Communist leadership in Beijing. *James Harding*

■ VIETNAMESE BANKING

Laws aim to clean up sector

Vietnam yesterday passed most of two landmark banking laws aimed at cleaning up the debt-ridden financial sector but analysts said it was only a half-step towards restoring the credibility of Vietnam's banks. Financial sector reform is a condition for the communist-run country to secure further International Monetary Fund funding, which dried up a month ago.

Bankers say the two laws deal broadly with instilling prudent lending practices but fail satisfactorily to address key issues such as debt classification and provisioning. They also skirt the question of disclosure, with banks still not required to report off-sheet liabilities – such as letters of credit (LCs). Widespread LC defaults earlier this year rocked prompted foreign banks to wind down their exposure to local banks. *Jeremy Grant, Hanoi*

■ NORTH AND SOUTH KOREA

Four-party talks start

North and South Korea, the US and China started historic four-party talks yesterday in Geneva aimed at concluding a permanent peace treaty ending the 1950-53 war on the Korean peninsula. South Korea officials said the first day of four-party peace talks were "constructive... and the atmosphere was good".

Washington and Seoul proposed the peace talks last year after it became clear that the armistice that ended the Korean War had frayed and that North Korea, suffering from near-famine conditions, might become increasingly unstable. *Agencies, Geneva*

De Venecia: admired for political skills but distrusted for links with Marcos regime *Reuters*

Ramos candidate wins few business votes

By Justin Marozzi in Manila

Philippine business leaders yesterday expressed disappointment at President Fidel Ramos's surprise choice of successor, as the World Bank warned of tough policy challenges awaiting a new president in the wake of the regional turmoil.

President Ramos has endorsed Jose de Venecia, speaker of the lower house, as his preferred candidate in elections next May. Big business has been rallying around Renato de Villa, former defence secretary, who had been considered most likely to receive the presidential "anointment".

Analysts said the unexpected choice of Mr de Venecia, who is admired for his political skills but distrusted because of his association with the administration of Ferdinand Marcos, was likely to shatter business unity.

"This decision upsets what was beginning to look like a pretty smooth through-train in terms of a Ramos handover," said Keith Craig, managing director of Indosuez W.I. Carr in Manila. "If de Venecia can become the champion to take on vice-president [Joseph] Estrada, then it will blow the field wide open and in a wide field Estrada emerges as a clear favourite."

Mr Estrada, a colourful and populist politician, and Gloria Macapagal-Arroyo, a high-profile senator, both opposition candidates, are the leading contenders in the polls. But Mr Estrada is regarded with loathing by most in the business community.

A survey of candidates by the influential Makati Business Club in January gave Mr de Villa 52 per cent backing with only 9 per cent for Mr de Venecia. Mr Estrada had 3 per cent.

"The backing of big business is important because of the financial and logistical support it provides," said Teodoro Limcaoco, managing director of the BZW office. "I think big business is now posed with the question 'Who do we back?'"

The World Bank, in a report to be presented in Paris next week, has outlined a series of policy challenges likely to challenge Mr Ramos' successor. The report praised the Philippines for its "relatively rapid" adjustment to the new market reality, but said a number of measures were required to restore investor confidence.

Key issues to be addressed included gathering precise information on the foreign debt service requirements of the private sector to help gauge pressure on the foreign exchange rate; the Supreme Court's decision last month to scrap the law deregulating the oil industry had to be addressed as soon as possible to minimise investment damage; and public agencies should be streamlined to reverse the trend over the past three years of increased government personnel costs.

In banking, the report praised "significant progress" in increasing capital adequacy requirements, loan loss provisions and liquidity reserve requirements on foreign currency deposits. The bank warned that prospective wage adjustments must not undermine the beneficial impact of the peso's recent depreciation against the dollar.

The recent volatility of capital flows underlined the need to develop domestic capital markets.

Economists argue that once the regional storm has settled, the Philippines is likely to emerge in better economic health than its neighbours. As Korea, Thailand and Indonesia return to the International Monetary Fund fold, the country is poised to exit at the end of the year under an as yet undefined "precautionary arrangement" with the fund.

Job losses 'may generate Asian social tensions'

By Ted Bardacke in Bangkok

Asia's financial turmoil could lead to "catastrophic" social consequences because there are few safeguards to protect the millions of people who will lose their jobs in the coming months, the International Labour Organisation (ILO) warned yesterday.

"Starting as the south-east and east Asian economies do from a prolonged period of high growth, even a deceleration of growth would generate social tensions," the ILO director general, Michel Hansenne, told a regional meeting of labour officials.

In Asia "there is typically no system of unemployment benefits or mechanism for facilitating retraining and redeployment," Mr Hansenne said. "Consequently, retrenched workers will have to fend for themselves."

Job losses are mounting throughout Asia, even in countries that just months ago were experiencing labour shortages. Thai officials say as many as 1.5m people are expected to be sacked by the end of next year. Korean job losses will total more than 900,000 next year according to labour ministry there. Unemployment in Indonesia will also rise by 1m people, labour union leaders say.

The ILO regional director for Asia, Joe Thurman, said job losses in the current crisis would have an impact on a high proportion of well-paid white collar workers, noting that on Monday 6,000 of Thailand's finance workers lost their jobs. "These people will have a hard time finding something comparable," he said.

Still, other officials warned that migrant workers and children are the most vulnerable sectors in the current crisis. A number of countries, including Malaysia and Thailand, are embarking on mass programmes to send home unskilled foreign workers.

Families often pull children out of school and put them to work when an adult bread-winner loses a job, said Roger Boehning, head of the ILO technical team for south-east Asia.

Asian governments have often cited their strong family and other traditional social support systems as the reason they don't need more formal systems for taking care of the unemployed. But Mr Hansenne said those structures had been weakened by industrialisation and "are clearly not enough".

"You can't have a process of industrialisation... without building something more sophisticated and appropriate than the traditional safety net," he said.

Singapore to loosen up on finance

James Kynge reports on proposals for a 'big bang' with a difference

It could have been a throw-away remark. But when Lee Kuan Yew, Singapore's founding father, said that Hong Kong seemed to possess more of a "buzz" than his prosperous city-state he was not making a frivolous observation.

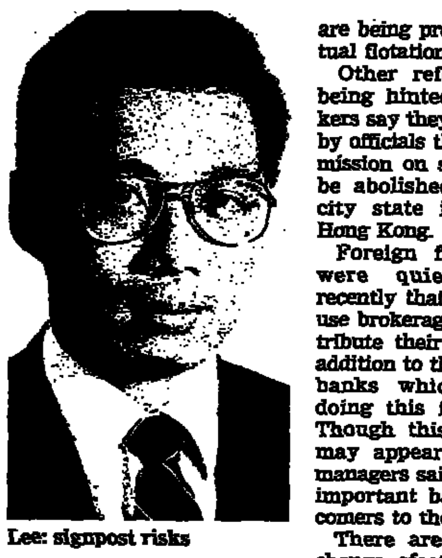
His comment, made in August, has touched off a rapid chain reaction aimed at deregulating the domestic financial industry. A study led by Brig Gen Lee Hsien Loong, the deputy prime minister and eldest son of Mr Lee, is pondering how best to detonate what is becoming known as Singapore's "big bang".

The object is to make Singapore one of the top financial centres in the Asian time zone, surpassing Hong Kong. A belief is gaining ground that, in order to achieve this, the highly managed island republic needs to loosen up.

"We need to rethink our fundamentals and chart new directions," said Gen Lee. His leadership of the Financial Sector Reform Group is a high-profile assignment which could help propel him to the premiership, if successfully executed, observers said.

"It is said that in Hong Kong anything not expressly forbidden is permitted, whereas in Singapore anything not expressly permitted is forbidden. This exaggeration captures an important difference in the two systems," he added.

The planned reforms are motivated by a belief that as the global financial system becomes further integrated, there may be room for progressively fewer financial centres in any one region. Japan's "big bang", planned for next year, may result in greater competition for Singapore. Hong Kong is already a keen rival and Shanghai has definite longer term potential, officials said.



Lee: signpost risks

The current crisis in south-east Asia, which has prompted neighbouring Malaysia to recoil from aspects of financial liberalisation, must not be allowed to sway Singapore's purpose, officials said. Richard Hu, finance minister, said in any case, Singapore has so far been relatively insulated because of its strong economy and prudent policies.

The study's recommendations have not yet been formulated but there is evidence that some relaxations are almost decided. Mr Hu said in an interview that foreign brokerage houses would probably be offered more seats on the Stock Exchange of Singapore, which now has 33 full members.

He added that foreigners may be allowed to subscribe to the public share offerings of state-run companies, such as the giant Singapore Telecom. This is a key concession because several attractive companies such as Singapore Power, the national utility, and PSA Corporation, which runs the world's second busiest port, are being prepared for eventual flotation.

Other reforms, too, are being hinted at. Stockbrokers say they have been told by officials that a fixed commission on stock sales may be abolished to bring the city state into line with Hong Kong.

Foreign fund managers were quietly informed recently that they may now use brokerage houses to distribute their unit trusts, in addition to the selected local banks which have been doing this for some time. Though this liberalisation may appear trifling, fund managers said it removes an important barrier for newcomers to the local market.

There are also signs of change afoot at the monolithic state Central Provident Fund (CPF), which has S$76bn (US$47bn) in members' pension funds. Recent relaxations have meant that some CPF money may be withdrawn before retirement age and invested in financial markets. But this has been tightly controlled; only relatively safe Singaporean stocks approved by the CPF may be bought by members.

If such CPF approval requirements are waived, and Singaporeans are permitted to invest some CPF savings abroad, the boost to foreign brokers and fund managers could be considerable. Some S$12bn in available CPF funds remain uninvested, an official said.

"The CPF is being reviewed from a fundamental point of view," said one official, who did not want to be identified.

It is not just the CPF. Enduring assumptions are being challenged as the state's "nannying" role is set to diminish. But individual freedoms imply responsibility for assessing risk. The new watchword, says Gen Lee, is to be *caveat emptor* – buyer beware. "We should signpost risky ground with danger signs, not cordon it off with triple barbed wire fences," he added.

This type of talk is little short of revolutionary in Singapore. Since independence, the country has been ruled under a tacit agreement that the government would look after people's material interests as long as citizens, in return, did not ask too many questions.

Gen Lee's comments suggest the government's side of the bargain is about to be re-examined. Whether Singaporeans will in response become less accepting of government dictates remains to be seen.

One area, however, in which deregulation may proceed more slowly is in the banking sector. Mr Hu said that foreign ownership of local banks should remain capped at 40 per cent "for the time being".

And although Singapore is clearly serious about its financial reforms, some observers say it is unlikely to reform everything at one go. Incrementalism has always been much more its style. As one official put it, the "big bang" is more likely to be a "series of thunderclaps".

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NEWS: THE AMERICAS

OAS condemns Brazil's police 'death squads'

By Geoff Dyer in São Paulo

The Brazilian police force operates "death squads", regularly covers up violence perpetrated by officers and is not trusted by large sections of the population, according to a report published by the Organisation of American States (OAS).

The report, which examines human rights in Brazil, calls for wholesale reform of the police force, including the establishment of a permanent commission to investigate "extermination squads", which the report says still operate in a number of states.

The conclusions are likely to increase the pressure on the Brazilian government to take concerted action against police abuses and to re-examine the role of the military police, following a series of revelations this year which have further tarnished the police's already low reputation.

Although the record of police violence had improved in São Paulo state since 1995, the report found it had deteriorated in Rio de Janeiro.

The number of deaths in Rio involving military police averaged 21 a month last year, up from 3.2 the year before, and in confrontations between civilians and police, the number of deaths was three times the number of injuries. Only 12 per cent of robberies were reported to police, reflecting low levels of public confidence.

The report cited cases of officers receiving praise despite being accused of victimising citizens. One police colonel, who had been awarded the title of "policeman of the year", had been accused of 44 killings during a 24-year career.

"This demonstrates the use of excessive force and also shows a pattern of extra-judicial executions by the Rio de Janeiro police," the report said.

The Brazilian foreign ministry welcomed the report as "a valid contribution" in the struggle for human rights and said the government had co-operated fully with the commission. As well as exposing grave violations of human rights, the foreign ministry said the report recognised there was a "sincere political will" by the government to give the issue of human rights priority in its political agenda.

Officials at the Rio state security secretariat said police in Rio faced drug-dealing criminals who often carried machine guns and who regularly kidnapped and tortured victims.

The report follows the outcry in April over police violence after a local television station broadcast amateur videos of police brutality. In one film, police were shown beating the drivers of several cars stopped at a police roadblock and allegedly murdering one passenger. Another broadcast showed police continually hitting civilians against a wall with belts.

Brazil police: accused of "excessive force" AP

Swiss banks may face court battle

US public finance officials agreed to lift the pressure on Swiss banks over holocaust victims' assets this week, deciding at a New York conference on Monday to suspend all threats of business boycotts until the end of March.

But the conference revealed the greatest threat to the banks comes from the US courts, rather than public sector money managers. The decision to impose a moratorium on economic sanctions is partly aimed at helping the chances of an out-of-court settlement on top of the restitution efforts already under way.

Angry scenes also showed there are divisions over tactics within the US Jewish community, with leaders negotiating a careful balance in their attempt to win a settlement. Many holocaust survivors seemed angry the Swiss banks were moving too slowly, and wanted more aggressive sanctions.

Melvyn Weiss, senior partner of Milberg Weiss Bershad Hynes & Lerach and liaison counsel for the holocaust survivors claiming compensation from the banks, shared a platform with the chief financial officers for the states of New York and California. He referred to press speculation that the banks were under pressure to agree an out-of-court settlement.

He argued that the lawsuit, which now includes more than 30 legal firms, should continue even though other efforts to arrange compensation were in progress.

The banks have applied for the lawsuit to be dismissed, on the grounds a process for compensating victims is under way through the international commission of eminent persons, chaired by Paul Volcker, former Federal Reserve chairman. Arguments were heard in August by a judge still considering if the case should continue.

Mr Volcker, who addressed the New York conference, argued against sanctions, and praised co-operation he had from the Swiss banks. Mr Weiss said: "If we get trapped into thinking this is about that which we can justify with precision, we aren't doing justice to those who suffered these wrongs, because 52 years of obfuscation make it impossible to reconstruct with precision. We aren't going to play that game. We want a just to determine what a just result should be."

He pointed out that several leading Jewish organisations, such as the Anti-Defamation League, have opposed economic sanctions, but are supporting legal action. He admitted the class action could still have many years to run, if there was no settlement out of court.

John Authers

☐ FT INTERVIEW: WILLIAM KENNARD, FCC CHAIRMAN

Continuing the big push for telecoms competition

It has been a hectic few weeks for William Kennard, newly ensconced chairman of the US Federal Communications Commission.

Since taking office last month, he has been working at a breakneck pace to ensure the agency does everything from implement the World Trade Organisation telecommunications agreement to appeal against an unfavourable court ruling to the Supreme Court. The tasks just seem to multiply.

But Mr Kennard seems unfazed by all the activity attached to the post of chief US regulator for telecommunications and broadcast. As he hurtles from meeting to meeting, he keeps one broad but unambiguous goal at the top of his agenda: "We want to bring competition to every corner of the telecommunications market in the country," he said in an interview.

Kennard: tasks multiplying

To the FCC's critics, Mr Kennard's high-paced daily schedule contrasts with the speed at which that goal is being met. It is now nearly two years since the Telecommunications Act was passed, deregulating local telephone markets, but progress has been slow.

In his last few months in office, Reed Hundt, Mr Kennard's predecessor, blamed the problems on legal wrangling by incumbent monopolies. He called on Congress to take action to remedy deficiencies in the Act by giving the FCC more power to intervene directly.

But while Mr Kennard seems to share many of Mr Hundt's convictions, he is at pains to strike a much more moderate tone. Given that 1998 is an election year for Congress, he sees prospects for any new legislative changes as remote.

"I think that there are certainly some areas which we've learned from the benefit of experience could use change, but I don't see that there is support for any significant, substantive amendments," he said. "The practical reality is, we've got to make the best of what we've got. We can't rely on the hope Congress will amend the act, or the Supreme Court will [intervene]."

Specifically, what he wants is to forge common ground with the states to establish a "magna carta" between state regulators and the FCC so they can take a common approach in trying to force open local markets.

A coalition of consumer and business groups said yesterday it was filing a petition with the Federal Communications Commission to demand cuts in access fees which long-distance phone companies pay local monopolies to connect telephone calls, Mark Suzman writes.

The groups, which include the Consumer Federation of America, the National Retail Federation and the International Communications Association, say cuts would help lower phone charges and stimulate competition.

"We have had a number of jurisdictional battles [with state regulators] and I want to shift the debate," he said. "What we want to do is establish a blueprint which will be the common principles essential to promoting competition."

Before that goal can be met, Mr Kennard has to surmount one big obstacle: reform of the so-called "universal service" requirements ensuring customers in rural areas and small towns are not discriminated against by phone companies.

In the past, these have been maintained by a complex network of implicit subsidies. But the 1996 act stipulated the system should be revamped, with a Universal Service Fund financed by big phone companies on explicit assessment rates.

The new system was due to start operating in January. But after congressional concern about warnings from big long-distance companies that they could be forced to charge higher prices to fund contributions, implementation has been delayed. Never the less, Mr Kennard admits it is a problem that needs to be solved quickly and equitably.

Despite all the obstacles, Mr Kennard is confident the pace of competition, while slow, is now starting to accelerate. He cites the World Trade Organisation accord, which the FCC approved last month, as evidence the pressure for change is becoming irreversible, not only in the US but globally. "There's still a fair amount of anxiety I'm picking up from our counterparts in Europe. But we have been working hard to reassure them we are dead serious about opening our markets," he said.

While he welcomes the prospect of new companies, foreign and domestic, entering telecoms and broadcast markets, Mr Kennard warns that the FCC will ensure mergers and acquisitions in both industries do not stifle emerging competition.

"Because of this dramatic change in the law, tremendous opportunities exist for companies to consolidate at historic and unprecedented levels," he said.

"It would be irresponsible for those of us in government who are working so hard to promote competition to allow it to be lost through consolidation and mergers."

Mark Suzman

NEWS DIGEST

Dollar bond for Argentina

Argentina yesterday became the first emerging market borrower to issue a dollar bond since the window was effectively closed during the global markets crisis in late October. The $500m offering, which was underwritten by Merrill Lynch, the US investment bank, was only the second emerging market bond to be issued in any currency since late October. The other, denominated in Italian lire, was also issued by Argentina.

"Argentina is showing that investors are starting to discriminate between Asia and Latin America," said one bond syndicate official in New York yesterday. "This kind of transaction would not have been possible a month ago."

However, Argentina was compelled to pay investors a coupon at least one percentage point higher than it would have had to offer before the global markets turmoil. In return, investors agreed to buy a highly unusual bond which allows for the spread – or the premium paid over US Treasury bonds – to be adjusted at regular intervals, through an auction.

Miguel Kiguel, finance undersecretary, said before yesterday's issue he did not think the auction structure involved taking a gamble on the future direction of rates. "We are confident spreads will tighten and this deal will end up saving Argentina money," he said. "We don't think we will be back in the debt market this year unless we get any interesting offers."

Edward Luce, London and Ken Warn, Buenos Aires

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■ US ECONOMY

Faster growth seen next year

While economists and policymakers remain uncertain about the impact of the Asian financial crisis on the US economy, the nation's manufacturers seem confident they will brush it aside and chalk up an eighth straight year of expansion in 1998.

In its latest semi-annual survey of manufacturing purchasing executives, the National Association of Purchasing Management said economic growth was likely to accelerate next year, driven by continuing gains in employment, capital spending and even exports.

"Purchasing executives report a higher level of optimism for the current year than they did a year ago, with 88 per cent of them expecting business in the first half of 1998 to be better than or the same as the second half of 1997," said Norbert Ore, chairman of the NAPM's Business Survey Committee.

Companies expect an average 7.8 per cent net increase in revenues next year, compared with a 7.2 per cent rise this year. The bullishness is all the more surprising, because it was manufacturers of traded goods who were expected to be hardest hit by the Asian crisis. More than a quarter of US exports are shipped to Asian countries hit by the turmoil and most economists have been expecting a sharp slowdown in US export growth next year. But the survey reported exports are expected to rise in 1998.

Gerard Baker, Washington

■ QUEBEC SOVEREIGNTY

Majority against third vote

Quebeckers have grown weary of the long debate over whether to separate from Canada and a majority would not be in favour of a third sovereignty referendum, according to a surprising opinion poll. The results mark a remarkable reversal among the Canadian province's public, who came within 1 per cent of voting for separation in a 1995 referendum. In a survey by pollster Angus Reid, 86 per cent of those questioned said they were "tired of all the talk about referendums and the constitution".

Politicians have for decades wrangled over how to appease French speaking Canadians who are concerned that their culture is being overwhelmed by the English speaking majority. In the poll released yesterday, only 36 per cent of respondents said they would be in favour of another sovereignty referendum should Lucien Bouchard, the province's premier, be re-elected for a second term. The premier is the leading advocate of separatism and has vowed to hold a third referendum if he is returned to office by voters. Some 61 per cent of those polled, however, said they were not in favour of a third referendum.

Scott Morrison, Toronto

NEWS: WORLD TRADE

Toyota picks France for new plant

By Robert Graham in Paris and Haig Simonian, Motor Industry Correspondent

Toyota, Japan's biggest car group, yesterday unveiled plans for a FFr4bn ($670m) greenfield plant at Valenciennes in northern France near the Belgian border to position itself for a larger European market share in the next century.

Hiroshi Okuda, the Toyota president, did not give a specific reason for the selection of France. But he said it was a combination of Toyota's need to raise its market share in France, its need to have a presence in continental Europe, its need to be inside the euro zone and the site's communications with Toyota's existing plants – notably in the UK.

The new small car will initially have a 60 per cent "European content" thus qualifying it to be classified as European. Engines are likely to come from the company's Deeside factory in Wales, established to feed the Burnaston plant in the Midlands.

Mr Okuda said Toyota had applied to the French government for a subsidy but details had yet to be finalised. In the motor industry there was talk yesterday of up to 10 per cent in various subsidies.

French officials said among the subsidies being considered were tax breaks, the waiving for a period of some social security contributions and aid in training the proposed 2,000 strong workforce. In addition the town of Valenciennes is expected to waive or reduce the annual property tax on the site while contributing to the establishment of Japanese-French schooling.

The plant is due on stream in 2001 but from 1999 Toyota will import its new range of small cars into France. Toyota executives said the group hoped to raise its current 1.1 per cent share of the French market to around 5 per cent with the new plant. At present Toyota only has 2.8 per cent of the EU market. But Mr Okuda said the group was looking for expansion not only in the EU but also in eastern and southern Europe.

Toyota had not been deterred from coming to France by high labour overheads and the Jospin government's plan to introduce a 35 hour week, he said. However, he admitted this put a premium on productivity.

As French officials trumpeted the Toyota investment as symbol of international confidence, UK reactions to Toyota's French decision were muted, partly because it had been signalled widely in recent weeks. The company's emphasis that the move had not been influenced by policy on Emu also removed any political barbs.

Margaret Beckett, trade and industry secretary, said she was "naturally disappointed" but remained confident about Toyota's continuing investment commitment to the UK.

"We worked hard to secure the project, but Toyota's decision was ultimately based on its wider European business strategy and the need to develop its presence in new markets."

Government officials noted Toyota's plans to boost UK car production, with the introduction of the Corolla model at its Burnaston plant in the Midlands alongside the existing Carina E/Avensis range.

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French finance and investment, separate section

French go into overdrive to win investors

Andrew Jack on how Paris has changed its attitude towards attracting foreign investment

One of the worst-kept secrets in France in recent months has been the decision by Toyota to construct a car factory in the north of the country.

The move represents a diplomatic as much as an economic triumph, luring a prestigious international company which has pledged to invest up to FFr5bn ($840m) and create 2,000 jobs by 2005.

It is the fruit of lengthy negotiations between the Japanese group and successive French governments of different political complexions – including the current leftwing coalition, whose sometimes controversial economic policies appear not to have put off Toyota.

But the decision also highlights the intense competition between countries for foreign investment and the relative importance given by corporate decision-makers to the different factors determining location.

There is little doubt that France's willingness and ability to lure foreign investors has risen sharply in recent years, in contrast to the late 1970s, when it famously spurned proposals including a project by General Motors of the US.

The late Socialist president, François Mitterrand, who masterminded a wave of nationalisations in the early 1980s, remained ambivalent on the subject. But his successive administrations contributed to reducing bureaucratic obstacles, and created a more coherent, coordinated mechanism to lure inward investment.

And under France's Gaullist president, Jacques Chirac, encouraging investment has become a priority on his trips abroad. It was even a theme at last month's Hanoi summit of francophone nations – a network previously dedicated more to cultural than economic matters.

United Nations trade figures released in September show that France attracted $21bn in investment in 1996, coming in fourth place behind the US, China and the UK. Between 1991 and 1996, the cumulative total for France stood at $119bn, beating the UK into second place within Europe.

The statistics need to be read with care. It is difficult enough amassing meaningful data, let alone distinguishing the more "useful" investments such as "greenfield" sites by foreign companies from the relatively "neutral" purchase of equities by foreign investors, and the potentially "negative" takeovers of French companies which can lead to job losses, repatriation of profits and "delocalisation" of decision-making.

Even so, Toyota's decision is not isolated. IBM, Motorola and Fedex are among the groups to have invested in recent months in France. The new Smart car, jointly produced by Germany's Mercedes-Benz and Switzerland's SMH, manufacturer of the Swatch wrist-watch, has just started coming off French production lines.

Jean-Daniel Tordjman, France's roving ambassador for inward investment, highlights a number of specific factors that lured Toyota, after five years of detailed discussions that he and officials from Datar, the state's inward investment agency, held with the company.

These include France's "century of experience" in the motor industry, with the consequent trained labour force, technical expertise and a network of experienced subcontractors. He also argues that the workforce is relatively "flexible", with employment costs and work rhythms more amenable than in neighbouring Germany with an equally strong car industry.

He plays down the influence of another significant factor: considerable government subsidies payable to Toyota in exchange for locating in a region with economic difficulties, which could reach 10 per cent of the value of the investment.

But Mr Tordjman stresses that one of the most important attractions of France today for investors is the priority of establishing a presence in a significant national economy within the European single market – and notably within the proposed euro single currency zone. He says the UK's continued ambivalence to monetary union has played to his country's advantage.

The question is how long this French comparative advantage will remain – either with the UK's eventual membership, or in the shorter term with an enlargement of the euro zone to include other significant European economies such as Spain and Italy.

All this comes at a time when the country's leftwing government has done little so far to attack labour market flexibility and high social security contributions and business rates, while raising taxes on corporate profits to 41.6 per cent and introducing proposals to reduce the legal length of the working week from 39 to 35 hours. These are all factors which, Mr Tordjman admits, "have not helped" his task.

Japan

Foreign direct investment

$bn	France	Total
1994	0.42	41.1
1995	1.52	50.7
1996	0.5	48.0
1997 (first half)	0.37	23.5

Source: Japan External Trade Organisation

A model of Toyota's new small hatchback, codenamed NBC

Investment by Japanese companies in France plunged 82 per cent last year to FFr521m ($88m), writes Michiyo Nakamoto in Tokyo.

Electronics manufacturers in particular have been hit by a sluggish market for some of the products manufactured in France, and at least two companies are shutting their manufacturing operations there. JVC, the audio and video maker, closed its French facility where it made audio equipment in July due to the declining competitiveness. JVC was one of many Japanese audio makers which had set up production bases in France enticed by the size of the French market for audio products and threatened by high tariffs on imports.

Matsushita, the world's largest consumer electronics maker, is in talks with its workers over possibly closing its unprofitable video tape recorder factory in Longwy in eastern France.

NEWS DIGEST

'Step towards duty-free net'

A new transatlantic understanding on the burgeoning market in electronic commerce has brought closer the US vision of a duty-free internet, says President Bill Clinton's special adviser on the sector. "This is a significant victory for the the internet," said Ira Magaziner, referring to a hard-fought section in the final communique of this month's US-European Union summit. The most controversial line pledges both sides to work for global agreement on two key points. Whenever goods are ordered electronically and delivered physically, no additional import duties will be imposed because of the use of electronic means; and transactions that take place purely on the internet should remain duty-free.

Mr Magaziner said the second provision accepted the duty-free status of anything that passed over cyber-space – including software and books which some people might define as goods rather than services. France and Belgium have been reluctant to forfeit the option of special tariffs on electronic trade. The communique also agreed any taxes on electronic commerce should be "clear, consistent, neutral and non-discriminatory". He said this was a riposte to the idea of an internet access tax. Business-to-business transactions in the US alone had grown from $2bn in 1995 to $5bn in 1996 and were conservatively projected to reach $300bn in 2002. *Bruce Clark, Washington*

■ EUROPEAN AVIATION

Lufthansa complaint filed

British Airways yesterday called on Brussels to curb Lufthansa, the German airline, from charging what it claimed were anti-competitive prices on one of its internal German routes. In an intensification of the row between the two airlines, Deutsche BA, British Airways' German subsidiary, said it had sent letters of complaint to competition authorities in Berlin and Brussels.

This is the first time Deutsche BA, set up by BA to take on Lufthansa in its home market, has taken a complaint against Lufthansa openly to Brussels. It claimed Lufthansa was abusing its dominance as Germany's biggest carrier to force out rivals by charging unrealistically low prices on its Frankfurt-Munich route.

Deutsche BA began offering flights from Frankfurt to Munich on November 24 and since then Lufthansa has reduced its route prices. Carl Michel, chief executive of Deutsche BA, said Lufthansa was breaching EU competition rules. Lufthansa declined to comment. Lufthansa and Deutsche BA both make a loss on their German routes and Lufthansa claims BA is unfairly subsidising its German arm. *Graham Bowley, Frankfurt*

■ SUBMARINE CABLE

Flag on the starting line

Flag, the world's longest submarine communications cable stretching 28,000km from the UK to Japan, went into commercial service yesterday. Privately funded, about 66 carriers have bought capacity on the cable which offers about 75 per cent of the world's population access to a broadband superhighway. Flag is expected to break even in three years when about 18 per cent of capacity will have been sold. Bell Atlantic of the US is the largest single shareholder with 38 per cent. *Alan Cane, London*

NEWS DIGEST

Top Nigerian detainee dies

Shehu Musa Yar'Adua, former military vice-president and one of Nigeria's most prominent political prisoners, has died, an official statement said yesterday.

An official statement from the emirates council in Yar'Adua's birthplace of Katsina in northern Nigeria said the 54-year-old politician and retired major-general died in prison in the eastern town of Enugu after a brief illness.

Until his arrest in 1995 for alleged coup plotting, Mr Yar'Adua was regarded by political analysts as military ruler General Sani Abacha's most formidable political opponent after detained presidential claimant Moshood Abiola.

Mr Yar'Adua was sentenced to death at a secret military trial in 1995 of more than 40 people, including his former boss, ex-military leader General Olusegun Obasanjo. His sentence was later commuted to 25 years in jail. Political analysts said Mr Yar'Adua's death could embarrass Gen Abacha's military government, which has promised open democracy and is under pressure both at home and abroad to free political detainees. *Reuters, Lagos*

■ ZIMBABWE TAX STRIKE

Tear gas fired at protesters

Most of Zimbabwe ground to a halt yesterday in the most effective national strike since independence in 1980.

Called by the Zimbabwe Congress of Trade Unions to protest against the imposition of higher taxes to raise Z$2.5bn ($164m) to finance compensation payments to war veterans, the stoppage was remarkably successful.

Ignoring a high court injunction against the police chief not to interfere with a demonstration in Harare to be addressed by union leaders, provided it remained peaceful, police fired tear gas to disperse demonstrators and prevented buses and taxis from ferrying demonstrators to the city centre.

Union leaders called for a return to work today, while accusing the police of overreacting and demanding legal action against the police chief for contempt of court.

The one-day stayaway was reported to have been observed throughout the country. The government blamed this on "white employers" who, it claimed, had paid workers to stay at home to embarrass the government because of its land redistribution policy. *Tony Hawkins, Harare*

■ ISRAELI BANKS

Dormant accounts unmoved

Israeli banks holding dormant accounts dating back to the 1930s have failed to submit lists to the General Administrator, having agreed to so before the end of the year. Shmuel Tsur, the administrator general charged with supervising property originally confiscated by the British when they governed Palestine before 1948 but later passed to Israel, said he had had little co-operation from the banks.

Last month the banks made a "gentleman's agreement" to hand over to the general administrator lists of those accounts in which no transactions had taken place for the past 10 years.

Knesset deputies campaigning for greater transparency in the banking system intend to draw up legislation obliging the banks to submit the lists. *Judy Dempsey, Jerusalem*

Khamenei attacks west as Organisation of Islamic Conferences meeting starts in Tehran

Iran's leaders take divergent stances

By Robin Allen in Tehran

Iran's leaders yesterday opened an Islamic summit in Tehran by putting sharply opposite views of the world on public display.

Ayatollah Ali Khamenei, Iran's spiritual leader, launched a fierce attack on the west as materialistic, money-seeking, gluttonous and carnal. Shortly afterwards, President Mohammed Khatami made an implicit call for a dialogue with the West and more tolerance of dissent in Islamic societies among all groups "who keep within the framework of law and order".

The speeches by the two Shia clergymen at the start of the eighth summit of the Organisation of Islamic Conferences (OIC) threw into sharp relief the jostlings for power among the upper echelons of Iran's clerical and secular political groupings.

Their audience included 35 Islamic heads of state and government leaders from countries that have long feared the export of Iran's 1979 revolution.

Among them were close allies of the west that boycotted a recent US-backed Middle East conference attended by Israel.

Ayatollah Khamenei aimed his tirade at the west in general, and the US and Israel in particular, accusing them of a cultural and military invasion of the Islamic world.

The ayatollah has the final say on all aspects of Iran's foreign policy demonstrated his pre-eminence over Mr Khatami by delivering the first keynote address.

One analyst suggested Ayatollah Khamenei was more intent on addressing his own minority conservative constituency inside Iran.

"His speech was more an effort to sustain the Islamic revolution and to provide delegates with a wider context for constructive debate."

To "activate" the OIC, he said, "we need no-one and nothing except public will and financial donations of the rich Islamic countries" – an old proposal unlikely to go down well with oil-rich Gulf states which pride themselves on their generosity to poorer Moslem countries.

President Khatami in his address appealed for "an Islamic civil society" where "government serves rather than dominates the people; where it is accountable for its acts before the people to whom God has attributed the right to decide their own destiny".

Iranian and foreign diplomatic analysts suggested Mr Khatami's use of the Koran, the Islamic holy book, to support his call for governments' public accountability, will have struck a responsive chord among a large majority of Iranians and members of the worldwide Islamic *ummah* community; though possibly less so among some of the OIC heads of state, most of whom are not known for their partiality to "people deciding their own destiny".

Crown Prince Abdullah, the highest-ranking Saudi leader to visit Iran since the revolution, said the world was witnessing an Islamic revival but Islamic militancy showed the Moslem community needed to put its house in order.

"The Moslem world is still suffering from a state of fragmentation and disruption and is going through the worst as a result of extensive militancy which has shed innocent Moslem blood in the name of Islam," he said in a speech released to the press before it was delivered at the conference.

Global dealers could beat pollution

Leyla Boulton on the US-style emission permit trading system some propose to bring market 'magic' to the fight against global warming

Climate change

Al Gore, the US vice-president, spoke lyrically this week about unleashing "the magic of markets" to tackle climate change. A US proposal for trading greenhouse gas emissions could give birth to a global "pollution market" if emission curbs are agreed in Kyoto today.

Such pollution trading that already exists, at the Chicago Board of Trade, has helped cut the cost to the US of curbing sulphur dioxide emissions that cause acid rain by up to 90 per cent.

Such trading would be the principal means available to the US government to implement any legally binding targets for it to reduce greenhouse gases, the most important of which is carbon dioxide from fossil fuels consumption.

"The US needs trading," says Fred Krupp, executive director of the Environmental Defense Fund (EDF), a US environmentalist pressure group. "Once you create a profit motive for enterprises to invest you unleash forces that are desperately needed to solve a problem like global warming."

The idea is looking increasingly attractive for others too. Only last night, non-European Union nations produced plans for a collective emission reduction target to be achieved by trading between them. The EU allocates fixed emission reduction targets, without trading, to individual member states.

Whatever is agreed on the details, any treaty is likely to allow at least some form of trading between industrialised nations. It was this that prompted John Prescott, the UK deputy prime minister, to urge the City of London earlier this week to start learning about pollution trading from Chicago to cash in on a potentially lucrative new market.

Some non-US companies which are likely to be affected by emission curbs have already begun to explore the opportunities offered by trading.

British Petroleum, for instance, is conducting a pilot programme to test trading among 10 of its subsidiaries.

But as the grand scheme has moved closer to reality in Kyoto, it has become the subject of fierce negotiations on how to plug loopholes that might allow countries to shift emissions around without cutting their overall level.

In particular, the concept has prompted fears among European governments and some environmentalist groups that the US may try to "buy" all the emissions it needs from Russia. These have been falling as a result of the collapse of the country's Soviet-era industrial machinery.

The US has responded to such concerns by promising it would achieve most of its emission reductions at home. "It is cheaper, more reliable, and easier to trade at home," says Mike Walsh of Centre Financial Products, a US consultancy based in Chicago.

But the EU wants such guarantees in writing. It is seeking fixed controls on the amount of emission reduction that the US can achieve through foreign trading. Advocates of trading, including the EDF, say that such controls would undermine the effectiveness of a trading system.

The key, say such advocates, is to set tough emission controls which would determine the supply, and price, of emission permits.

The US has pushed Russia to agree a challenging emissions reduction target so that it cannot accumulate unlimited tonnes of carbon dioxide by outperforming an unambitious target.

A glut of cheap Russian emission permits that cost less per tonne than cutting carbon emissions at home would free other countries from pressure to change their energy consumption habits at home.

The US has pressed for tough penalties against countries that breach their targets to discourage them from selling more permits than they can afford to. This has been opposed by the EU as premature.

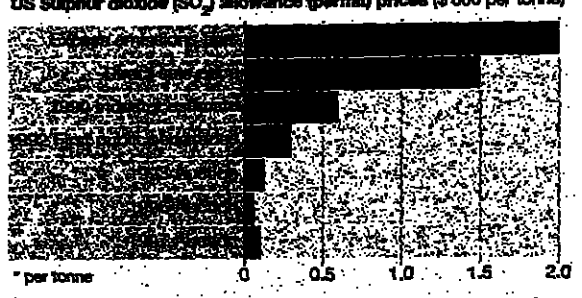
The White House has already ruled out so-called superheated trading, which would allow Russia to sell emissions "saved" before any reduction targets had to be met, say for a 2008 deadline.

This is the sixth in a series of articles on issues related to climate change negotiations in Kyoto

Pollution: a market solution

The amount of pollution of a particular type to be allowed is set by international agreement or national legislation. Permits to pollute that amount are issued by governments. These are allocated to polluting businesses. Polluters who exceed emissions for which they do not have permits face fines or other penalties. Businesses that do not pollute by the amount for which they hold permits can sell their unused permits on a secondary market. Conversely, those that expect to pollute more than their permitted amount can buy further permits on that market. The price is set by supply and demand. The solution is based on the principle that businesses have a financial incentive to pollute less through advances in efficiency and technology. The US experience has shown that trading can drive down the cost of cutting pollution. It has proved cheaper to cut emissions in this way than by prescription.

US Sulphur dioxide (SO_2) allowance (permit) prices ($'000 per tonne)



* per tonne

Annual cost to cut greenhouse gas emissions 10% below 1990, using tradeable permits with assumed price of US$20 per tonne of carbon

	Required cut (mmtce)**	Total cost (US$bn)	% of nominal GDP in 2000
US	323	6.45	0.072
EU	68	1.35	0.015
Japan	43	0.87	0.014
Canada	27	0.54	0.073

** Million metric tonnes carbon equivalent

Sources: US EPA, US General Accounting Office, Chicago Board of Trade

Dataholics find PCs addictive

By Paul Taylor in London

Information may be the "drug" of the 1990s. Many people, particularly those in high-powered business jobs, are becoming "information addicts" and "screen junkies", according to an international survey published yesterday.

The study, based on telephone interviews with 1,000 people in Germany, Hong Kong, Ireland, Singapore, the UK and the US and commissioned by Reuters, suggests that we are witnessing the rise of a new generation of "dataholics".

In spite of the growing threat of information overload, the survey showed that more than half those questioned "crave" information and almost 50 per cent claimed that if information was a recognised drug, they would know people who would be considered addicts. An overwhelming 76 per cent believe information can become addictive.

Three-quarters of respondents believe that personal computers, the internet and information generally will become addictive in the future, while 54 per cent claim to get a "high" when they find the information they have been seeking.

More than half the respondents said they felt unable to deal with the volume of information accumulated and 60 per cent said the cost of gathering information outweighed its value. Nevertheless 84 per cent said they stored it in desk-top paper piles and on PC discs for future reference, leading to what Michael Foster, director of business information at Reuters,describes as "a build-up of unmanageable information".

Significantly the report also suggests that information addiction is not confined only to the workplace. Fifty-five per cent of those parents questioned said their children prefer PCs to their friends and 36 per cent were extremely worried that their children were over-exposed to information.

Reflecting this, almost 90 per cent of parents said they thought schools and colleges should do more to prepare the next generation with the tools to deal with information overload.

Commenting on the findings Mark Griffiths, senior lecturer in psychology at Nottingham Trent University in the UK, said: "Have we become fact-fanatics and info-junkies? There is a very fine line between having enough information and getting too much. This study reveals a clear linkage between internet abuse, data accumulation and information addiction."

Glued to the Screen: an investigation into information addiction worldwide. Firefly Communications, +44 (0)171 381 4505, £45.

Algeria sends bond message

By Roula Khalaf

Sonatrach, Algeria's state-owned oil and gas company, is set to issue AD5bn ($85.4m) in five-year bonds on the domestic market.

Oil and gas account for more than 95 per cent of Algeria's foreign exchange revenues and Sonatrach has significant expansion plans. But the bond issue is not a response to financial needs as much as an "educational experiment" to mark the launch of Algeria's capital markets and send the message that only the best companies will issue securities.

In a country plagued by violence, and in which the state controls more than 60 per cent of production, private institutional investors are non-existent and retail investors scarce. This makes launching a bourse and a corporate bond market an ambitious project.

But this is a special kind of market liberalisation. At least in the first phase, the planned stock market will be a "public sector bourse", according to Sid Ali Boukrami, president of the commission that will regulate the capital markets. A large part of the Sonatrach bonds, meanwhile, will be bought by brokers set up by six state-owned insurance and banking companies. "There were no candidates from the private sector," concedes Mr Boukrami.

The Sonatrach bonds will give Mr Boukrami's commission a corporate issue to regulate, and the hope that other profitable state companies will follow Sonatrach's example. The problem, as one western economist put it, is that blue-chip companies are scarce in Algeria. "As everyone would say, after Sonatrach, what else is there?"

As for the equity market, Mr Boukrami is betting on privatisation to spur activity. Although the government has committed itself to privatisation, and the battered industrial sector is badly in need of it, movement on this front has been slow.

A list of 150 state-owned companies has been drawn up for privatisation, to be sold by 1999. Some foreign companies are showing interest in faltering state assets. But the level of foreign investment into Algeria – apart from in oil and gas, which are located far from the violent north – is affected by security and political risk considerations.

The Algerian-style bourse has figured out a way to woo hesitant investment from Algerians eager to keep their wealth a secret. Mr Boukrami says the bourse will issue a kind of bearer share, in which the identity of the buyer will be unknown. However, while this will attract undeclared wealth, it will also raise questions of transparency.

Egypt presses on with sell-offs

By Mark Huband in Cairo

The Egyptian government is to prepare its national telephone company and four state-owned insurance companies for privatisation, and has approved the setting up of a second private mobile phone service, following a cabinet decision yesterday to speed up the sale of state assets and increase competition.

Kamal el-Ganzouri, the prime minister, took a big step to revitalising the flagging privatisation programme by ordering Egypt Telecom to prepare for its incorporation as a company under a law, forcing it to comply with new internationally recognised accounting rules recently issued by the Ministry of Economy.

The order bypasses the procedures under law 203 governing other state companies which have been prepared for privatisation. It moves Egypt Telecom directly from ministerial control to having greater autonomy as a state-owned corporation under law 157.

The cabinet also agreed to allow a second private mobile phone service to be launched in competition with the recently established Egyptian Mobile Telephone, which is to be fully privatised.

Egypt Telecom is now expected to undergo extensive restructuring. It may also be able to raise investment capital on the stock market.

The decision to give it more independence, as well as force it to meet international accounting standards, is regarded as a sign of the government's readiness to adopt a more decisive approach to privatisation.

"This is meant to give an unambiguous message that we are forging ahead whatever recent incidents there may have been to try to hinder us," said Yousef Boutros Ghali, the economy minister, referring to the recent killing of 58 foreign tourists by Islamist militants.

Mr Boutros Ghali said Egypt's four state-owned insurance companies were to be independently valued with a view to part-privatisation. Up to 75 per cent of the insurance sector is dominated by three of the state-owned companies.

Valuations are expected to take up to nine months, during which the government will use valuers' comments to draw up plans for restructuring and improvements in management.

Government says teams of local doctors will control 90% of state budget

Big shake-up for health service

By Simon Buckby, Social Affairs Correspondent

Teams of local doctors are to be given control over 90 per cent of the £35bn ($58.45bn) National Health Service budget in the biggest overhaul of the state service since the former Conservative government introduced a competitive internal market in 1991.

It will also be one of the biggest reforms in the service since it was created by the post-1945 Labour government as a nationwide service that would guarantee free medical care to the whole population.

Tony Blair, the prime minister, hailed yesterday's publication of the paper as "a turning point for the NHS", claiming the restructuring of the service would save £1bn in red tape over four years.

A government paper published yesterday outlines plans to end competition within the service, and to replace area health authorities and individual fundholder doctors as the commissioners of local health care with so-called Primary Care Groups.

These groups, containing up to 50 doctors as well as community nurses and other local health professionals, will typically cover areas of 100,000 patients. Their management costs will be capped. The health authorities will assume responsibility for setting three-year strategic plans and monitoring standards.

Hospital trusts are to retain their operational freedom, but will be forced to cut costs.

Launching the plans, Frank Dobson, the chief health minister, told MPs: "We want the NHS to become a modern and dependable service which is the envy of the world. It will be an NHS for the next century, based on its founding principles of high quality care for all, delivered on the basis of need, and need alone.

"Today we are sweeping away the internal market, and replacing it with a system of integrated care that puts doctors and nurses in the driving seat," he said.

One aim of the reform is to make local doctors treat more patients themselves, taking pressure off overcrowded acute hospitals.

By replacing individual GP fundholders and health authorities with Primary Care Groups, the government believes it will make huge savings by cutting the number of commissioning bodies from 4,000 to about 500.

The Institute of Health Service Management said that "more self-management, more services at home and more local treatment are certainly right," but warned that "reconciling the public to fewer hospitals will be a difficult political task".

With escalating demand and soaring costs, the health service has an almost insatiable appetite for resources.

Farmers green with envy over Emerald Isle

Irish agriculture wins $135m to compensate for currency rise

For the UK's hard-pressed beef farmers, the grass looks decidedly greener across the Irish Sea. Farmers in the Republic of Ireland have just been awarded nearly I£93m ($135.3m) by the European Union and their own government for the impact on prices of the rise in their currency in 1996 and early 1997. More money could be on the way.

However, the British government has told its farming industry that there is "no pot of gold" in Brussels and has resisted calls to apply to the European Commission for similar compensatory payments for the appreciation of sterling.

The reason is that the UK budgetary rebate won from the European Union by Margaret Thatcher – then Conservative prime minister – under the Fontainebleau agreement of 1984 has the effect of putting most of the cost of any extra-budgetary funding at the doorstep of the UK Treasury.

The National Farmers' Union, leading the campaign for £980m ($1,636m) compensation over three years, says the UK government is unfair when farmers in Germany, the Netherlands, Belgium, Austria, Denmark, Luxembourg, Italy, Sweden and the Republic of Ireland have been given aid since 1995.

"You can say there's no justification for giving compensation for an appreciating currency because other [industrial] sectors suffer and don't get compensation," says Martin Haworth, the union's head of international affairs.

"But the problem is that we're in a single market competing against other countries where farmers are getting compensation."

The union opposed introduction of the mechanism in 1995. It said this would lead to market distortions because it was left up to individual member states to decide to apply for compensation for their producers.

"Farmers are very upset about the distortions caused by different governments," says Mr Haworth.

A rising pound means farm prices and support payments, in Ecus, fall when translated through the "green pound" into prices and support payments to UK farmers. The green pound has been revalued by 16 per cent this year, and UK farmers are entitled to more EU compensation than all other member states have received together, says the union.

The compensation mechanism agreed in 1995 followed the abolition of the agrimonetary system's highly inflationary "switchover mechanism", which raised all EU prices to farmers in line with an appreciation in the strongest currency. Governments can now apply for compensation when their currency has increased above its average value of the past three years.

The commission sets compensation according to losses by farmers. The EU pays half, with the rest at the national government's discretion. The Irish government is paying I£24.5m to its beef, dairy and cereal farmers, with a further I£68.2m coming from the EU.

Britain's problem is that applying for just £490m from the EU – half the total – would leave the Treasury with a bill for £348m, or 71 per cent. This is because new EU spending for the UK reduces the UK's net budget contribution and thus cuts its budget rebate.

Alison Maitland

Blockades by farmers against imports of cheap beef were not the only food protest in Britain yesterday. Compassion in World Farming staged a graphic demonstration in London's Trafalgar Square against the growing trade in frogs' legs. The organisation said the 16 tonnes of legs sold in Britain each year would require the slaughter of 1m frogs. Its action mirrored a similar protest in Paris by Protection Mondiale de l'Animal de Ferme

Adverts linking meat to cancer banned

By Alison Smith, Marketing Correspondent

An advertising watchdog has banned the Vegetarian Society from repeating advertisements linking meat consumption to a higher risk of cancer, saying that they were misleading and likely to shock. The Advertising Standards Authority upheld complaints from the Meat and Livestock Commission, the National Farmers' Union and others about a newspaper campaign in October.

It said the advertisements wrongly implied that "a causal link between the consumption of meat and the incidence of cancer was universally accepted", and that the link extended to all meat diets. It also criticised the accompanying photographs of operation scars, saying that, together with the claims, this was "likely to shock, offend and unduly distress readers".

The Vegetarian Society said yesterday it would not use the advertisements again, but stood by its campaign and objected to the authority's decision.

Steve Connor, head of public affairs, was dismayed that the authority had banned the future use of the advertisements' claims – about the connection between eating meat and the risk of some types of cancer – because they were not unanimously held.

"We are partisan, everyone knows that, and we should have the right to put our point of view through advertising. If we can't put that point of view because it's not universally accepted then the implications are very worrying indeed."

In July last year the Meat and Livestock Commission was censured for making exaggerated claims about the safety of British beef. Six months earlier it had been the subject of a successful complaint for suggesting that anaemia in children was linked to vegetarianism.

UK NEWS DIGEST

'Truth body' for N Ireland urged

A "truth commission" should be set up in Northern Ireland to deal with years of mistrust in the region's police force, the Committee for the Administration of Justice, a civil rights group, said yesterday. It called on the UK government to introduce a body along the lines of one currently hearing evidence in South Africa as part of a range of measures "for dealing with the past".

The group attacked the Royal Ulster Constabulary [civil police force] for being "unrepresentative, highly militarised and insufficiently accountable". The report, based on the findings of an 18-month research project which studied policing in South Africa, El Salvador, the Middle East and Spain, called for official targets on recruiting Roman Catholics and women into the police.

"The purpose was to bring together concrete proposals and good practice for Northern Ireland from other jurisdictions around the world which have undergone major changes in policing," said CAJ's Maggie Beirne.

The Police Federation, which represents 11,500 RUC officers, said a truth commission would "open every single old wound there could possibly be in Northern Ireland".

■ INFLATION

Rate steady after earlier rise

The retail prices index rose 3.7 per cent in the year to November, unchanged from the year to October, government figures showed yesterday. The underlying rate, which excludes changes in mortgage interest payments, also held steady at 2.8 per cent.

The rate remained stable in spite of sharp falls in the prices of non-seasonal foods, including discounts for cheese, soft-drinks and ready-made meals. November's 0.7 per cent fall in non-seasonal food prices was the largest drop since 1963, the Office for National Statistics said. November's figures were a marked contrast to October's data, which surprised the financial markets with an upturn in both headline and underlying rates. Yesterday the markets reacted positively to the November figures, with falls in interest rate expectations and a rise in UK government bond prices. *Richard Adams; Robert Chote*

■ LIFE ASSURANCE

'Pru' seeks regulation change

Prudential Corp, the UK's biggest life and pensions company, is to fall into line with the rest of the retail financial services industry by applying to be regulated by the Personal Investment Authority.

The Pru was for years the only life assurance company to be regulated directly by the Securities and Investments Board, refusing to join one of the self-regulatory organisation such as the PIA which came under the SIB's umbrella.

However, Sir Peter Davis, Pru's chief executive, said yesterday he had agreed to a change after discussions with Howard Davies, chairman of the Financial Services Authority, the renamed SIB which will shortly be taking over the functions of the PIA and other regulators. Competitors have complained that regulation by the FSA has allowed the Pru an easy ride over the clearing up of its pensions mis-selling problems. *George Graham, London*

■ SOCCER

Clubs to discuss restructure plan

The 72 soccer clubs in England's three lower divisions will meet in London tomorrow to consider a radical restructuring of the Football League aimed at making the game more attractive to fans, broadcasters and commercial sponsors.

The clubs will be presented with four alternative structures to replace the current system of three 24-club divisions. The most revolutionary of the proposals would involve the creation of a mini-"super league" within the Football League of just 12 teams, supported by two divisions of 24 teams and a final bottom division of another 12 teams.

Ever since the top 20 clubs in England broke away in 1992 to form the FA Premier League, most of the new money flowing into football from television fees, merchandising sales and sponsorship income has gone to the elite clubs, significantly increasing the wealth gap between the top flight and the Football League.

If a clear consensus emerges at tomorrow's meeting, it could be put to the vote at an emergency general meeting in February. *Patrick Harverson, London*

Minister condemns threats to abattoir inspectors

By Alison Maitland in London

The government yesterday threatened legal action against abattoir staff who intimidate meat hygiene inspectors. The warning follows a series of incidents of physical and verbal abuse. Jeff Rooker, food safety minister, said he had asked to be kept informed about all cases of threats and abuse.

"I will not tolerate intimidation of Meat Hygiene Service inspection staff and I support legal action where necessary to ensure that meat is fit for human consumption," he said.

The Meat Hygiene Service has set up a confidential helpline for employees who feel they are being victimised or prevented from carrying out their controls of meat safety in slaughterhouses and meat plants.

Inspectors were manhandled, shut in offices, had water hoses turned on them and verbally abused with "offensive language", said the agriculture ministry. However, the incidents were isolated and most inspectors had good working relationships with the slaughterhouses they policed.

The agency, which has 1,350 inspectors, is responsible for enforcing hygiene and the welfare of animals at slaughter, and for ensuring that parts of carcases that could be infected with BSE are correctly removed.

The problem of intimidation has emerged as the meat industry faces an annual bill of £40m ($66.8m) from next April for the cost of these BSE-related inspections. To the industry's fury, the government announced last month that the taxpayer would no longer shoulder the bill.

Pressure is also mounting on abattoirs as the government prepares next month to publish hygiene scores for individual plants for the first time.

The Meat Hygiene Service said 89 per cent of slaughterhouses achieved a score of 65 or over – the effective pass mark – in October. The worst month this year was April, when only 62 per cent passed. The comparable figure for 1995, when the agency was established, was 38 per cent.

The issue of poor standards in slaughterhouses gained prominence in March, when the Financial Times revealed that some processing plants had become breeding grounds for the deadly e.coli organism. The industry has promised tougher voluntary controls since the e.coli food-poisoning outbreak in Scotland last year which killed 20 people.

Pressure mounts for new Chinook crash probe

By Jimmy Burns and Liam Halligan

One of parliament's leading defence experts, Lord Chalfont, yesterday stepped up calls for a fresh inquiry into the causes of the 1994 Chinook helicopter crash in Scotland. He spoke amid new evidence that the software system controlling the aircraft's engine may have been faulty.

"I'm getting a lot of letters from people who believe the government is hiding something," said Lord Chalfont.

He intends to write to George Robertson, chief defence minister, to demand that the Royal Air Force reopen its inquiry into the incident in which 25 senior Northern Ireland intelligence experts died. Lord Chalfont, who was a Foreign Office minister in the Labour governments of the 1960s, is now president of the cross-party defence group in the House of Lords, the unelected upper house of parliament.

The RAF's official verdict – publicly supported by the government – is that the crash resulted from "gross negligence" on the part of the two deceased pilots. The judgment has been contradicted by a Scottish sheriff's report and numerous RAF pilots, and in recent weeks publicly challenged by a growing number of MPs.

Lord Chalfont said that he had become "more anxious" about the issue following the recent admission by two former Conservative defence ministers, Sir Malcolm Rifkind and James Arbuthnot, that they had not been made aware by ministry of defence officials that the aircraft had suffered from mechanical problems.

"What is now at stake is not just the reputation of two dead pilots but the honour of the RAF," said Lord Chalfont.

An analysis of a report into Chinook's software system published tomorrow by Computer Weekly magazine questions the information recently given to parliament by the government on the Chinook's safety record.

The report, written by EDS-Scicon, the information services company, found "a large number of different types of anomalies" in the coding of the aircraft's Fadec software system, some of which raised concern about the "safety critical implications" of the software.

On November 18, John Spellar, defence minister, told the House of Commons that EDS-Scicon had made "485 observations" but "none were considered safety critical".

But the EDS report, seen by the FT, showed that even though only 17 per cent of the computer code was checked, 56 "category 1" errors and 193 "category 2" errors were detected.

In a crucial passage, the report added: "In a rigorously developed safety system ... the code can be expected to contain none, or very few category 1 anomalies and only a small number (in the order of tens) of category 2 anomalies".

According to Computer Weekly, the report does not prove that the anomalies caused the Fadec to operate incorrectly. However, the magazine reveals that after submitting the report to the defence ministry in July 1993, EDS was not asked to complete its investigation of the software, although the company offered to do so.

Bruce George, chairman of the Commons defence committee, said it was "not a dead issue".

Target of tax innuendo fires back

Millionaire Treasury minister threatens legal action over hypocrisy claims

Geoffrey Robinson has joined the highly exclusive club of ministers who threaten legal action against newspapers. Mr Robinson is paymaster general, a minister at the Treasury, and his responsibilities include the "windfall" tax on the profits of privatised industries as well as the private finance initiative, in which private sector companies are invited to take stakes in public projects.

Mr Robinson had no option but to threaten legal action because his reputation was being damaged by a steady stream of stories about his tax affairs. None of them suggested he had broken the law. But they accused him of hypocrisy by alleging he had arrangements to avoid paying UK tax when the government was committed to cracking down on tax avoidance.

He denies the charges. But his problem is that his financial affairs are complicated, providing great scope for newspapers and the Conservatives, the largest opposition party, to hurt him with innuendo.

He is a tempting target for them. Although a junior minister, his influence is greater than that of many of his cabinet colleagues. His authority stems largely from his close personal relationship with Tony Blair, the prime minister, and Gordon Brown, the chancellor of the exchequer.

Since Labour's election victory in May, the Treasury has been run by a caucus of Mr Brown, Mr Robinson, Ed Balls, the chancellor's economic adviser, and Charlie Whelan, his political adviser on press relations. In opposition, they became a closely knit team, intensely loyal to each other. "If you want to get anything done, those are the four you have to convince," said a senior official.

Geoffrey Robinson - a minister from industry

- 1938 born Sheffield; educated Cambridge and Yale universities
- 1965-68 research assistant for Labour party
- 1971 joins state-owned British Leyland vehicles monolith
- 1972 managing director of Leyland's Innocenti offshoot in Italy
- 1973-75 chief executive of Jaguar Cars, then a Leyland offshoot, in Coventry
- 1976 elected Labour MP for Coventry North-West
- 1978 unpaid chief executive of Meriden co-operative producing Triumph motorcycles
- 1980 director, West Midlands Enterprise Board
- 1981 founds Transfer Technology (Transtec) to transfer ideas of universities to industry
- 1983 Labour party spokesman in House of Commons on industry
- 1996 buys leftwing New Statesman magazine
- 1997 May appointed paymaster general by Tony Blair, the prime minister
- 1997 Dec Blair rejects call from Labour MP for Robinson to resign as paymaster general

But Mr Robinson has also been assiduous in cultivating Tony Blair, who has a high regard for his judgment on business issues. The prime minister has also enjoyed the fruits of Mr Robinson's considerable wealth and famous generosity, having holidayed for the past couple of summers in his Tuscan villa. Mr Blair yesterday said his faith in Mr Robinson remained unshaken. He was, and would remain, an important member of his team.

The prime minister made clear the important consideration was the lack of any evidence Mr Robinson had transferred offshore any of his UK assets, estimated to be worth £30m ($50m).

Mr Blair was alluding to the financial vehicle at the hub of all allegations against Mr Robinson, the Orion Trust. This is a Guernsey-registered trust, created by Mr Robinson's long-standing Belgian friend and business partner, Joska Bourgeois, who died in 1994.

Mr Robinson says he is a "discretionary beneficiary" of the trust but has no control over it. And because of Orion's independence, he felt he had no need to include it in his so-called blind trust – the vehicle into which he put all his business interests on becoming a minister, in accordance with guidelines stating that members of the government should withdraw from all commercial involvement.

He will, however, continue to be haunted by the affair for a bit longer. The question of whether he should have disclosed the existence of Orion in the register of MPs' interests is being examined by the parliamentary standards watchdog, Sir Gordon Downey.

Robert Peston

MPs fear powers of regions will be too limited

By Brian Groom in London

MPs aired concern yesterday over the level of powers suggested for the nine proposed English regional development agencies, or RDAs, and the lack of clarity in the government's ideas for establishing them.

At a hearing of the House of Commons regional affairs committee, Lindsay Bell, director of regional policy at the government's environment department, irritated Members of Parliament by being unable to answer detailed questions without referring to other departments. Tom Brake, a Liberal Democrat MP, told her: "You have painted a picture of a very emasculated RDA which cannot possibly be the first step towards regional government."

Andrew Bennett, the committee's chairman, said most answers were "I'm not sure" or "it depends". He expected greater clarity from the forthcoming bill.

The RDAs' activities include urban and rural regeneration and drawing up regional economic strategies. But much of their influence will be exercised in co-operation with other government bodies.

Eric Pickles, a Conservative MP, was concerned RDAs would "chase investment around the country." Alan Whitehead, a Labour MP, highlighted potential conflicts between RDAs, which had responsibility for promoting sustainable development, and local councils, with powers over land use planning.

● Scotland's disproportionate share of public expenditure may be cut from 1999 by a revision of the Barnett formula which allocates a share of spending changes in Scotland and Wales. It is resisting demands, however, for a review of spending needs in Britain's regions and nations.

Generators may expand into supply

Ministers plan reforms for privatised power businesses

By Simon Holberton in London

The British government's review of utility regulation will pave the way for UK generators to own the electricity supply business of regional electricity companies (recs), an official close to the review said.

The government is, however, wary of allowing generators to own electricity distribution assets and will probably not permit it, he said. "As long as generation is competitive we've got nothing against vertical integration," he added.

Recs are engaged in two businesses – supply of electricity which will become fully competitive from next year, and distribution, a monopoly activity from which recs earn most of their income.

The utilities review will result in the publication next month of a government consultation paper. It is expected to include a recommendation for fresh legislation to allow the division of electricity licences between supply and distribution.

National Power and PowerGen, the privatised generators, were thwarted in their attempts each to acquire a rec 18 months ago. Ian Lang, who was then chief industry minister in John Major's Conservative government, ruled that there was not enough competition in generation to allow the takeovers to go through.

Industry analysts said that allowing the generators to acquire a rec's supply business would make their business less risky. But they were surprised that the Labour government was being tougher than the previous Conservative government in not allowing the generators to own distribution assets.

PowerGen has made no secret of its desire to own a rec, but it is unclear where it would want to own just the supply business. Industry analysts said the absence of a distribution business would make the acquisition less financially attractive to PowerGen.

This may not be the case for National Power and Scottish Hydro-Electric both of which have indicated an interest in acquiring a supply business. Although the electricity regulator would prevent direct sales from a generator to its supply business the company would, at a group level, have a natural hedge for part of its output.

Professor Stephen Littlechild, the electricity watchdog, said yesterday that the review of the electricity market which the government has asked him to undertake might look at the role of generators in the market.

Critics have long alleged that the big generators exercise market power in the wholesale Electricity Pool because they own the power stations that regularly set the price of power.

The terms of reference of the Pool inquiry are not expected to be published until the end of next month.

● The National Audit Office has called for an investigation into the increasing number of queries on water bills which are now running at 15m a year.

The audit office believes the figures suggest a problem with the service provided by water companies and has asked Ofwat, the industry regulator, to take action.

Prophetess of the wastelands

Lynn MacRitchie visits the cathedral of art Alanna Heiss has created in New York

Alanna Heiss, founder and executive director of PS1, inquires: "What kind of shoes are you wearing?" as she sweeps me out of her office for a whirlwind tour of the former public school in Long Island City, Queens, which she has transformed into New York's most exciting venue for contemporary art.

The school was derelict 20 years ago. It has been sensitively refurbished under the direction of Los Angeles architect Frederick Fisher, and its 125,000 square feet of space make it the largest institution in the world showing contemporary art.

Flat shoes, a fortunate choice, were needed to climb on to the roof, where, with a spectacular view of the Manhattan skyline across the East River, visitors can rest at a table designed by Julian Schnabel – and even offer a prayer to his painting of a priest, suspended over their heads as they climb up the metal ladder that leads to work by Daniel Buren and Bruce Nauman.

Heiss began showing art in New York in 1971, working with artist Gordon Matta Clark in the spaces under the Brooklyn Bridge. She was never interested in dealing in or collecting art. The excitement for her is in being around artists themselves – "getting high from their creative energy". She is famed for never sleeping, setting up her project office in the nearest congenial bar, and being ever available to keep those creative juices flowing. Artists love her.

Many, including Buren, Nauman, and Richard Serra, starting their careers when she showed their work at the first exhibition at PS1 in 1976, have recreated their original work for the refurbished space. Others, such as Schnabel and Ilya Kabakov, have made new pieces especially for the opening. Heiss is a bundle of energy and wit. Her enthusiasm for the massive project she has masterminded for the past three years is as infectious as it must have been 20 years ago when she persuaded all those artists to follow her into the wastelands of Queens.

We head for the boiler-house in the basement, where, amid huge chunks of mysterious machinery, two Robert Ryman paintings of 1964 are hung on the rough brick walls, just visible in the fading afternoon light. To show this most precious of painters in such surroundings is typical of her daring, and the fact that Ryman approves is testament to her judgment. Heiss stands in front of them, entranced. "Have you ever visited a cathedral?" she asks the young guard. "No," he replies. "Well, if you ever get to one, this is how you will feel," she declares. Creating cathedrals in Queens and hanging masterpieces in cellars is all part of the Heiss roadshow. Early supporters included Brendan Gill and the Municipal Arts Society who helped her negotiate her "guerrilla spaces" for art in vacant buildings, one of which became the Clocktower Gallery in Tribeca, which Heiss still runs.

She explains: "It had nothing to do with the assemblage of power. It was purely about hosting and producing exhibitions, using the artists' power, which is loaned to you." Her goal is to "respond to new art quickly and professionally" – in spite of having no budget for her exhibitions. The city still owns PS1 and paid for 85 per cent of the renovation costs. Heiss raised the rest and all the funds for the arts programme, which is completely project based.

Expenses have been increased with the new space. "In the old days, we would close for two months and open for two months. Now we're open all the time, with big shows changing three to four times a year." Heiss is particularly proud of her 50 young guards, learning everything from lift maintenance to art history on the job. There is also a studio programme, with artists from 16 countries.

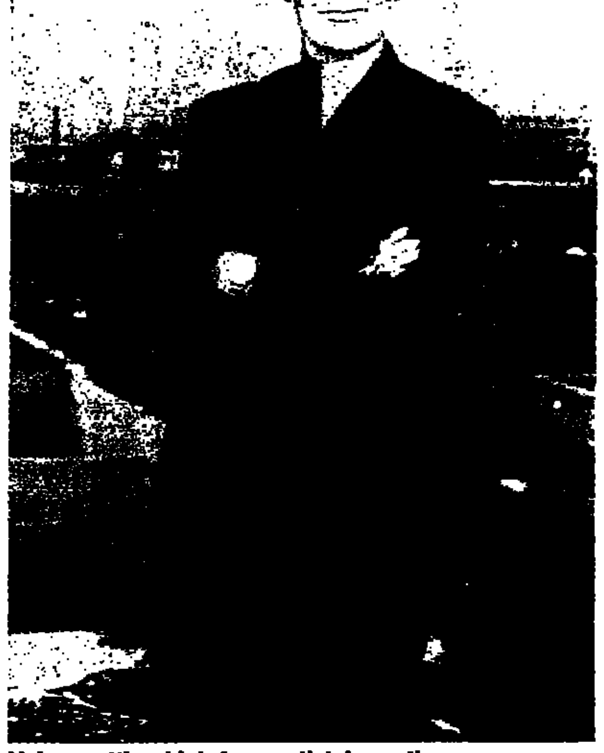
The artists help out. Robert Wogan, who created a powerful installation for the opening exhibition, designed the banners and lighting outside. And Lynne Yamamoto, who has a solo show as part of the opening exhibition, is a studio graduate.

"Our relationship with artists is strong," Heiss explains. "The energy and vitality emanates from the artists into the institution, and there is a lack of that distancing that is present in the cool and detached observation that makes a good museum show. But many artists are good at doing shows . . ." The John Coplans retrospective, planned and installed by the artist himself for the opening, seems a model of restraint.

Nearly 200 artists have work in the opening extravaganza, which includes retrospectives of the extraordinary film maker and eccentric performer, Jack Smith, Canadian sculptor Jackie Winsor, and contributions from international young stars such as Sam Taylor Wood, Pipilotti Rist and the Chapman brothers.

Twenty years ago, PS1 brought a breath of fresh air to a city where the art scene is dominated by powerful galleries and big museums. PS1 was somewhere artists had room to breathe – and, miraculously, it still is.

PS1 Contemporary Art Centre, 22-25 Jackson Avenue at 46th Avenue, Long Island City, New York 11101 (tel 718 784 2084).



Heiss: getting high from artists' creative energy

Theatre/Sarah Hemming

A sparkling evening in hell

How intriguing it is to stage Thomas Kyd's *The Spanish Tragedy* alongside *Hamlet* as the Royal Shakespeare Company is currently doing in London. For Kyd's blood-stained drama offers an image in negative of the more famous tragedy. Here, the motor of the play is a wronged father, Hieronimo, who seeks revenge for his murdered son, Horatio. There are other echoes – a woman driven mad by grief; a wandering vengeful ghost; a play within a play; and a hero who procrastinates. And here revenge is finally exacted, but it brings no relief. Indeed, Kyd drags us into a world so bereft of justice and moral certitude and so steeped in violence that it feels like a chamber in hell.

Michael Boyd's tense, dark production expertly exerts the play's claustrophobic hold. He cannot disguise Kyd's faults – the rambling speeches, lengthy exposition and crude structure – but he seizes on the desperate vitality of the play. His staging has moved from The Swan to the The Pit where it fits perfectly, the audience being incarcerated with the cast in the dungeon-like space. Tom Piper's excellent set is all dark bare boards, suggesting the period of the play but also embracing its bleak heart. A dusky, blood-red curtain is used with great effect to switch from scene to scene, but as it slices down on the action it reminds one of a guillotine.

The story takes place in the aftermath of a battle between Spain and Portugal. In an inspired move, Boyd sends the figure of Don Andrea, whose death in battle launched the whole saga, to haunt the stage, prowling through the action and constantly reminding one of the supernatural context of the play. Meanwhile, the characters are scarred, dusty and bloody. Many look half-crazed, including Robert Glenister's excellent, vulpine Lorenzo, who masterminds Horatio's death for political reasons, but with sadistic, Iago-like relish. As his sister, the much-abused Bel-Imperia, Siobhan Redmond is waxen, demented and weirdly compelling.

As a foil to their extravagant performances, Peter Wight, in the difficult role of Hieronimo, is touchingly down to earth. He quietly suggests the humane magistrate and loving father who is to be driven out of his mind by the murder of his son (a restrained and affecting Tristan Sturrock). He does not quite embrace the whole terrifying scope of his flickering sanity, but he brings great warmth and humanity to the part and manages to speak some of the more laborious speeches as if he were coining them afresh.

I couldn't quite cope with the cowled figure of Revenge, who looked as if he had a tea-towel over his head, or with Ewart James Walters' declamatory Don Andrea. And, while Boyd ingeniously suggests that the story is on a hideous self-perpetuating loop by assembling the cast at the end as if in a waiting room, in hell, and by projecting Hieronimo's desperate last speech across the curtain throughout the action, he then rather over-sells this idea by bringing on Horatio at the end to start the play again. But this is a riveting production, *illuminated* by some sparkling ideas and supported throughout by Craig Armstrong's subtlely used, atmospheric music.

Continues at the Pit, Barbican, London EC2 (0171 638-8891).

Young and gifted: Tamara Rojo and Roberto Bolle as Clara and her Nutcracker Prince Alastair Muir

Ballet/Clement Crisp

A 'Nutcracker' for the nineties

English National Ballet has a new *Nutcracker*. Cheers, first of all, for the relief of never again having to witness the dread capers of the previous version, which was nearer Broadmoor than Tchaikovsky. Cheers, too, for a modernising of the ballet, by Derek Deane, which satisfies the current need for a contemporary look to such old favourites without destroying their charm. At the Coliseum, Deane has successfully trodden the tightrope between today – the party scene is in modern dress; one of the guests even sports that boor's badge, a mobile 'phone – and the fairy-tale fantasy of the Kingdom of Sweets (a triumph of licorice allsorts and the most sugary of tooth-rotters).

In this he has the admirable collaboration of Sue Blane. Her designs of an all-white drawing-room, her costumes (both of today and for Clara's dream) and her prettily wrapped sweets, are entirely in harmony with the staging's clever linking of the present with the timeless world of a young girl's fantasy. Characteristic of this approach is the selection of dolls that Drosselmeyer brings to entertain the children in the first scene: they are (I am informed by a connoisseur) Robocop, Michael Jackson, and what looked to me like a hooker but is, I gather, a doll vastly popular with little girls (and, judging by her behaviour, with their Wicked Uncles, too).

The quality of the staging is, I trust, clear enough from this catalogue. Deane has a sure sense of theatre, and the action flows with enough humour to keep parents amused, and with enough magic to delight the midgets. He also has a neat way with classic steps: his Snowflake scene is pretty; his Kingdom of Sweets divertissement, his party dances, are well-made, effective. The action is no more, and no less, unlikely than in more traditional views of *Nutcracker*, whose logic is really that of Tchaikovsky's staggering score. Deane slightly skates over these sublimities – the music is more tragic and also more emotionally rich than producers want to accommodate in a Christmas show – but his tale is clearly told.

Drosselmeyer is the motive force of the action, guiding Clara through her adventure, and on Monday night the role was well taken by Greg Horsman. As Clara, Tamara Rojo gave a performance of extraordinary grace. She is clearly a very gifted dancer. More importantly, she is able to seem a young girl, and her innocence and emotional delicacy brought exactly the right sense of magic to the telling of the tale: it was an interpretation of rare merit and truth. Her Nutcracker Prince was Roberto Bolle, a still young and very able artist from La Scala, Milan. Beautiful manners, an easy and unforced technique, charm – that rare quality – and, lucky him, very good feet, mark him as a danseur to treasure. His one big variation was admirable in every way.

The Sugar Plum, and Ice Queen for the snow scene, was Lucia Lacarra. I have much admired her with Roland Petit's Marseille company, but rather less so on Monday night. I was bothered by a physique that looks as if it needed to gorge on the surrounding sweets to round it out a little. I was more bothered by the way she seemed to croon the choreography, emulsifying it, making the crystalline steps, the frosting of sugar that glitters on the dance, seem syrupy. Her choreography is a good way "after" Ivanov's glorious original – which is a shame – and Lacarra does nothing to give it the delicious equivalent of the celesta's bright-ringing sound. (Unnecessarily high extensions are no help, either).

From the ENB ensemble, a splendid performance. The evening had an especial importance for them since it was a memorial to Diana, Princess of Wales. In an introductory speech (and before a 10-minute film showing the Princess with the company, as she was so often and so influentially) Derek Deane called her "a friend to dance". This *Nutcracker*, which her patronage made possible, is a lasting tribute to that friendship.

At the Coliseum, London WC2. ENB's *Nutcracker* is sponsored by Harrods.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITIONS
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Gabriel Orozco: Recordings and Drawings. Display of recent video works by the Mexican artist, filmed in New York and Amsterdam; to Dec 14

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 10, 13

BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 14

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudo Abbado in works by Wagner, Schumann and Beethoven; Dec 12, 13, 14

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Dec 11

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 12
● Hänsel und Gretel: by Humperdinck. Conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 13

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 11

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 11

EDINBURGH

EXHIBITIONS
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Portraits of Excellence: a series of photographs of distinguished academics at the University of Edinburgh, commissioned according to an 18th century University tradition; to Feb 1

LONDON

EXHIBITIONS
Barbican Centre
Tel: 44-171-638 8891
● Don McCullin – Sleeping With Ghosts: major retrospective of work by the photo-journalist which spans his career from 1959 to the present. Includes prints drawn from the major news stories he covered, and more recent still lifes and landscapes; to Dec 14
● James Ensor 1860-1949: more than 140 works by Belgium's foremost expressionist artist. Includes early studies of Ostend, portraits of the artist's family and friends, and the carnival paintings for which he is best known; to Dec 14

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 10, 11, 13, 15

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Ravel, Britten and Debussy. With soprano Sylvia McNair and the Los Angeles Master Chorale; Dec 11, 13, 14

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Tosca: by Puccini. Concert performance given by the Hallé Orchestra and the European Orchestra in their first collaboration. Kent Nagano conducts; Dec 10, 11, 14

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 10, 13

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by Serocki, Bacewicz, Rimsky/Korsakov and Dvorák. With trombone soloist Joseph Alessi; Avery Fisher Hall; Dec 11, 12

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 10, 11, 12, 13, 14

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Samuel Ramey and Dawn Upshaw; Dec 11

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With piano soloist Radu Lupu, soprano Luba Orgonasova, mezzo-soprano Marianne Roerholm, tenor Herbert Lippert, bass René Pape. Choir led by Arthur Oldham; Dec 10, 11, 13

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 11, 14

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 11, 14

Théâtre des Champs Elysées
Tel: 33-1-49525050
● Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 12
● Leonore: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, and conducted by Louis Langrée. With the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera; Dec 10, 13

TOKYO

EXHIBITIONS
Museum of Contemporary Art
Tel: 81-3-5245 4111
Loans from the Centre Georges Pompidou: selection of 127 works from the Musée National d'Art Moderne in Paris, on loan while it is refurbished. Artists represented include Matisse, Chagall, Picasso and Tinguely; to Dec 14

VIENNA

EXHIBITIONS
Kunsthistorisches Museum
Tel: 43-1-525240
Pieter Brueghel and Jan Brueghel: comprehensive survey of the art of the two sons of Pieter Brueghel the Elder. Includes around 130 paintings and 20 works on paper by Jan Brueghel the Elder (1568-1625) and his less celebrated brother Pieter Brueghel the Younger (1564-1637/8). The exhibition also includes a dozen important works by their father; to Apr 14

TV AND RADIO

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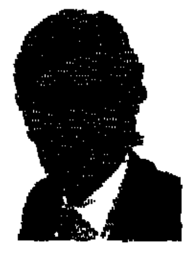
EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

MPs fear powers of regions will be too limited

By Brian Groom in London



Edward Mortimer

Rights and wrongs

The US is often depicted as leading the world crusade for human rights, but the reality is rather different

Today marks the start of the 50th year of the Universal Declaration of Human Rights. We can expect to hear a lot about human rights over the next 12 months.

In fact, human rights are a growth industry. The number of organisations monitoring human rights has risen since the end of the cold war, as has the number of governments, intergovernmental agencies and even commercial companies that claim to include human rights in their policies. As with other kinds of crime, a rise in the statistics may reflect more intensive reporting rather than an increase in the actual number of violations. Certainly, the likelihood of violations going undetected or being completely ignored has diminished. And that must be good news.

So visible are human rights these days that Robin Cook, the UK foreign secretary, began his term of office in May by announcing that his government would "put human rights at the heart of our foreign policy". This bold, if not foolhardy, pledge seems to have cut little ice with Human Rights Watch, the US-based independent monitoring group*. In its annual World Report, published last week, HRW still treats the UK as one of the villains of the piece, alongside other "major powers".

It describes UK support for the treaty banning landmines as "reluctant". On the proposed international criminal court it concedes that "the UK's position changed measurably after Labour's electoral victory" (unlike that of France which was "especially obstructionist" before and after the change of government). But it adds that "substantive changes have lagged behind the Labour party's professions of support".

The US, however, is the main target of the report. Apologists for China and some third world governments often speak as if the US had invented human rights as a pretext for interfering in other countries' affairs. But HRW sees things differently. Not only was the US government "particularly conspicuous" in its tolerance of grave human rights violations in central Africa this year. It also showed "arrogance" by seeking "to block the strengthening of human rights standards and institutions", while refusing to let even existing standards be applied to its own performance.

US practice, says the report, "falls short of international standards" in such areas as police abuse, treatment of prisoners, abuse by the Border Patrol, treatment of asylum-seekers, and application of the death penalty. The US is one of only six countries (the others being Iran, Nigeria, Pakistan, Saudi Arabia and Yemen) that execute people for acts committed before the age of 18.

Nor does it any longer welcome "huddled masses yearning to be free". Asylum-seekers who reach the US without proper travel documents are now sent home after a "cursory review", while others, including children, are often detained "in high security facilities with prison-like conditions". Here, alas, the US is in more "respectable" company, since both summary removal and detention of asylum-seekers are also widespread in the EU.

The US refusal to sign last week's landmines treaty has been well-publicised. What is less well known is that, while proclaiming its support for the idea of an international criminal court, the US has "insisted on various restrictions that would weaken the court's independence and effectiveness". It has done so with the apparent aim of "avoiding even the remotest possibility that an American soldier, pilot or political leader might end up in the dock".

More bizarrely, the US is one of only two countries (the other being Somalia, which does not even have a recognised government) not to have ratified the Convention on the Rights of the Child. Likewise it "stands virtually alone" in opposing a ban on the use of children under 18 as soldiers, apparently because "the Pentagon finds it somewhat easier to reach its enlistment goals if it entices 17-year-olds to sign up for military service".

The true champion of human rights, according to HRW, is not the US, nor any of the "major powers" (all guilty of putting their own economic and strategic interests first), but a "new global partnership" in which non-governmental organisations such as the International Campaign to Ban Landmines (this year's Nobel Peace prizewinner) join forces with small and medium-sized states from both north and south. If, as now seems likely, a treaty establishing an international criminal court is signed next year, it will be largely thanks to the support of southern governments, many of which "have completed transitions from authoritarian to democratic government". This gives the lie to the widespread perception that human rights are a northern agenda, unfairly targeting the south.

In the landmines case, a treaty has been achieved because those who wanted one, led by Canada, decided to ditch the UN's "consensus" approach and confront the US with a choice: "Accept an unconditional ban or face the ensuing opprobrium."

HRW suggests the international community should now take a similar approach in other human rights negotiations. This would involve "simply leaving the US behind" and letting it catch up later – as it did after 40 years with the Genocide Convention, whose 49th birthday also falls this week.

485 Fifth Avenue, New York, NY 10017-6104. Website: http: www.hrw.org

In the frame: the report highlights police abuse in the US

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LETTERS TO THE EDITOR

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Glory passes, but not quite yet

From Mr Jean-Pierre Lehmann.

Sir, The hubris of Asian leaders while they were on a roll was as cacophonous and distasteful as is the gloating in certain western circles in the face of their travails and undoubted loss of face. Although Samuel Brittan ("'Asian model', R.I.P.", December 4) proceeds to qualify his triumphalism *vis-a-vis* the apparent Asian *debacle*, the title of the article is unfortunate. Besides which, he may well in the not too distant future have to eat his words.

As a seasoned observer of east Asia for more than three decades, I have been constantly dismayed to see how ready we in the west are to trumpet that continent's defeat and then immediately, patronisingly, to admonish Asians to be more like us. Of course, the bombast of "Asian values" emanating from Lee Kuan Yew or Mahathir Mohamad is not to be taken seriously.

Not to recognise, however, that there are forceful cultural dynamics among a significant number of the east Asian emerging middle-class population – combining features such as the drive to wealth creation, the ethic of self-improvement, priority given to education, and so on – is to suffer from arrogant myopia. These qualities are not specific to Asians (and their links to "Confucianism" are tenuous at best) and they come and go in different societies' histories. I believe they are vanishing from Japan. In Korea and the Chinese centres I frequent – for example, Taipei, Hong Kong, Tianjin, Shanghai, Xiamen, Guangzhou and so on – and indeed among the "overseas Chinese" (in Asia, America and Europe), they seem to be conspicuous by their presence. Look at the proportion of Asians, for example, that have won places at the Juilliard School of Music, not to mention Massachusetts Institute of Technology.

I agree there is no "Asian model" of capitalism, but the only people I have heard or read arguing that there is have been either superficial or polemical, generally both. Mr Brittan should do well to ignore them and to concentrate instead on the underlying dynamics of what remain enterprising and energetic cultures. He should also perhaps especially listen to the region's youth and not its fuddy-duddies. Any sense that Asian dynamics are about to rest in peace would, I believe, be quickly dispelled. *Sic transit gloria mundi*, perhaps, but not quite yet.

Jean-Pierre Lehmann,
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Switzerland

Market-based tradeable quotas scheme

From Mr David Fleming.

Sir, In your recent surveys of the debate on reducing emissions of carbon dioxide ("More gas in Kyoto", November 29-30), you have twice drawn attention to arguments in favour of national (as distinct from international) tradeable quotas (also known as emissions permits).

The Lean Economy Initiative has developed a blueprint for a tradeable quotas scheme, which shows how it could be structured and quickly applied within national economies. It would be based on an unconditional entitlement to every adult, together with a tender to organisations, modelled on the issue of short-term government debt. It is a hands-off scheme, with virtually all transactions being carried out electronically, using the technologies and systems that are already in place for direct debit systems and credit cards.

"Carbon units" would be required to cover every transaction involving fossil fuels. There would be a market in them, which would enable low users to sell their surplus and higher users to buy more. The scheme has been designed to function efficiently and benignly even for people and organisations unable or refusing to participate. Its critical advantages are as follows:

- It is equitable, as it does not require low users to pay more for their daily fuel needs. This is fundamental as an instrument not widely recognised as equitable would be vetoed politically.
- It is effective, in that it focuses on the need to reduce emissions, rather than on the ability to pay.
- It is a genuinely market-based system with responsive prices allowing a long-term national carbon budget to be sustained in spite of economic shocks.

This scheme has been published in European Environment and presented to the Climate Change Unit at the European Commission and to the Globe UK group of MPs. It is hoped that research and development of the idea will begin in earnest in 1998, and we are keen that it should have the widest possible consultation and discussion, starting now.

David Fleming,
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Sentiments on one-way track

From Mr Max P. Schweizer.

Sir, During the second world war, vast countries like the US and the UK, with its empire, locked most Jews out. Switzerland sheltered 30,000 Jews for years, barring from entry the same number because no country in the world would grant them a visa.

Swiss weapons exports went mainly to the allies until they were driven from the continent. Then – completely encircled – the deal with Germany was vital to keep going. With this arrangement, and knowing that an invasion would come at a cost, Switzerland was literally moved from the main course to the dessert.

It is telling that Jews are now shifting the emphasis from the gate-crashing argument (accounts stolen by the banks), which remains completely unsubstantiated, to a more vague "moral" assessment of Swiss business and politics, targeting a strong symbol – gold! All the hype about new figures for gold bullion coming to and passing through Switzerland is designed to keep sentiments going one way.

Gold was then a prerequisite for the transactions made on behalf not only of the Germans but of everybody else, including the allies. German gold was legal and Switzerland was in a weak position to question that. There is certainly no moral gap to any other nation which had to survive during that period.

But instead of firmly standing their ground from day one, the banks and the Swiss government wanted to explain, dismiss false accusations and set distorted evidence straight when and if the information was available. This seems not a good idea when you have to counter information warfare.

Max P. Schweizer,
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Personal View · G. Jonathan Greenwald

Getting to know you

The US should adopt a more positive attitude towards the European Union

Over the next 18 months, European leaders will either make important progress towards a kind of United States of Europe or find themselves in utter disarray. But unfortunately, as it considers its relationship with Europe, Washington is preoccupied with the wrong issue.

It is focusing on the question of Nato enlargement – a debate largely irrelevant to Europe's real agenda and primary US interests. Instead, it should pay far more attention to an institution largely unknown in America and misunderstood even among specialists: the European Union.

Today's historic business revolves around the EU. Europeans have already built prosperity by creating a trade bloc. But the EU does not yet punch its political weight, while Brussels is commonly blamed for the unemployment and spending cuts that endanger the good life many Europeans consider to be their birthright. EU leaders hope this will change when monetary union is launched in 1999.

European economic and monetary union is deeply political. Proponents argue that it will revive the "Europe" idea, make deeper political union inevitable and ease the path of EU enlargement. Conversely, if Emu collapses, enlargement – and much else besides – will be on indefinite hold.

If Emu goes smoothly, western Europe will be ready for a new transatlantic partnership. If not, it could find itself more divided than at any time since the second world war. Emu's fate, not Nato enlargement, will determine political tempers at the millennium.

Oddly, little consideration is given to an articulate US position. Bland efforts to say nothing leave an impression that the US is uneasy, or perhaps even negative. US-EU summits almost ignore the topic.

The EU is uncomfortable terrain for Washington's foreign policy experts. US trade officials – veterans of bruising heavyweight fights – are rarely Europe fans. However often the US says it supports a strong EU foreign policy, doubts remain.

Americans are uncomfortable dealing with the EU's blend of sovereign state and international organisation. Recently a high state department aide called EU decision-making a "disaster" the US would never allow in Nato.

The US can no longer afford such an attitude. Bill Clinton, the US president, is right to say "an integrated Europe is America's natural best partner for the 21st century". There is no other region with which the US shares so many values. But the balance between the continent's two great institutions is changing.

Only the EU has the political and economic power to help democratic market societies take root in eastern Europe. And only the EU has the resources that could make a real difference to countries in which instability stems from poverty, environmental degradation and other "global" problems.

The US president and EU leaders hailed the New Transatlantic Agenda, the lengthy summit document they signed in 1995, as their "roadmap to the 21st century". First fruits came in the economic area, notably with an agreement to accept each other's product-testing in several sectors thereby trimming the cost of doing business by billions of dollars.

> The EU is uncomfortable terrain for Washington's foreign policy experts. US trade officials are rarely Europe fans

Pledges to co-ordinate foreign policy, however, raised eyebrows among Washington officials who regard the EU as merely a "Brussels trade body". It is not clear whether semi-annual summits will help. White House reluctance to schedule a meeting for December showed how little the US respects the EU. The New Transatlantic Agenda must overcome sceptics who say that EU political pretensions will come to nothing in the foreseeable future.

The EU's common foreign and security policy is less than its name implies but more than its reputation would suggest. It deploys impressive resources on sensitive issues when there is time to put its cumbersome machinery into action.

In 1995, it gave Russia $1.5bn to assist transition to market democracy, when the US gave only $234m. Poles, Czechs and Hungarians got $4bn of EU money, but only $10m of US help, while the Middle East, excluding Israel, received $433m from Brussels, and only $173m from Washington. EU global humanitarian aid in 1996 neared $2bn, one-third more than US aid.

Reforms are still urgently needed to equip the EU for fast-moving crises. This summer's Intergovernmental Conference helped only a little. EU member states need a different mindset. They must choose between the dependency of bilateral "special relationships" with Washington and greater, though shared, influence through common European policies.

If this demands a change of attitude in Europe, then the US – accustomed to believing that things only happen when it is "number one" – faces even tougher adjustments. Washington needs to learn to work with a would-be equal whose officials have more financial (though not military) muscle at their disposal than their US counterparts.

Instead of drawing red lines to fence off Nato from the EU, the US should ask whether it is consistent with its interest in a strong partner to insist on handling "alliance issues" only with individual states.

Strains are growing. Some European officials believe that the only way to make Washington take the EU seriously is to present it with a challenge. The concessions – and respect – won by the EU over the Boeing mega-merger opened many people's eyes in the US.

The EU may be more and more tempted to get US attention by going solo in areas like the Arab-Israel dispute. Such tests of strength and prestige are risky. It would be far better for both parties to commit to the changes needed for true partnership.

First resolutions might include:

- The US should make a virtue of necessity by giving its unambiguous support to Emu. Failure would make it harder for the US to achieve its foreign policy goals in Europe and beyond. Success would produce a stronger, self-assured EU with which Washington could do business.
- The EU should demonstrate its strategic reliability (and hence potential for full partnership) by negotiating expeditiously with prospective applicants, even if no new members can be expected before 2002. All too often current members want to judge enlargement narrowly on how it affects them.
- The EU should defuse Aegean tensions and improve the chances of settling the Cyprus issue by offering Turkey the real prospect of membership when it resolves internal problems. Washington, however, should curb Ankara's unrealistic expectations that membership can come quickly or easily.
- Persuading Congress to take seriously the dangers of passing extra-territorial legislation, such as on Cuba and Iran, is probably unrealistic. Second best would be for US officials to develop a respect for Europe and its institutions.

Only by appealing to Europe's better instincts will Mr Clinton have any chance of achieving his vision of the 21st century.

The author, now retired, was until recently minister counsellor at the US mission to the European Union

COMMENT & ANALYSIS

FINANCIAL TIMES
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Wednesday December 10 1997

A good deal to be done

The World Trade Organisation's efforts to reach agreement to liberalise global trade in financial services are due to conclude on Friday. A successful outcome would bolster confidence in financial markets, shaken by the Asian crisis. Failure could deliver another severe jolt. The choice between these outcomes lies with the US. It should say yes to a deal.

Washington almost scuppered the last WTO financial services talks in 1995. It balked at an agreement, saying advanced developing economies had not offered to open their markets enough. Spurred on by the Asian turmoil, it has since pressed them to go further. It has argued, rightly, that liberalisation, subject to legally binding WTO disciplines, would do much to underpin these countries' financial stability, stimulate economic efficiency and attract foreign capital.

The message has been heeded. About 60 countries have tabled WTO offers. Most are an advance on commitments made in 1995, some decidedly so. Admittedly, there is scope for improvement. Asian economies which have recently turned to the International Monetary Fund have yet fully to guarantee, in the WTO, the liberalisation they pledged in exchange for financial assistance. They should be urged to do so now.

The EU and other WTO members believe there is already a basis for a deal. But the US continues to equivocate. Perhaps that is just an end-game negotiating ploy. A more worrying possibility, however, is that domestic political pressures have cramped Bill Clinton's room for manoeuvre.

After failing to win fast-track trade negotiating authority last month, Mr Clinton may feel he can afford no trade initiative which is not guaranteed instant popularity with Congress and industry lobbies. Yet fast track foundered on opposition from special interests, because he did not take a strong enough public stand in favour of free trade. He may never get a better chance to do so than by backing a WTO deal, which would help to serve the US interest in restoring financial stability in Asia.

The alternatives, moreover, look grim. If the US again walked away from an agreement in Geneva, the talks would face collapse, leading to withdrawal of worthwhile liberalisation pledges. WTO members might then feel no obligation to treat all financial services trading partners equally and opt for discriminatory and divisive policies, increasing business uncertainty and costs. That, admittedly, is the nightmare scenario. But to risk it by rejecting the deal on offer would be not just irrational. It would be irresponsible.

EU defence

The UK, France and Germany clearly hoped their joint announcement yesterday on the future of their aerospace and defence industries would be seen as an event of some significance. History will only judge it to be so if the governments demonstrate that they are now prepared to make the decisions necessary to rationalise their industries.

That would require an undertaking to avoid the duplication that has brought Europe three new fighter jet projects. It would also require an acceptance that factories will have to close and – because some countries have achieved greater efficiency than others – that the pain will not be shared equally.

Yesterday's statement provides little evidence that the governments are ready to make these choices. It contains only one concrete proposal: that Europe's three leading aerospace companies – Aerospatiale, British Aerospace and Daimler-Benz Aerospace (Dasa) – prepare a timetable for their restructuring, based around Airbus Industrie.

The governments say this is because it is for the industry to work out its future. This is disingenuous. Governments – particularly the French – have been the principal obstacle to a wide-ranging consolidation of the European industry. BAe and Dasa have indicated that they are prepared to discuss a merger. Paris has been preoccupied with regrouping its industry on a largely national basis.

Governments are also the three companies' main defence customers. It is for the governments to say that they will in future look for the most cost-effective solutions rather than favouring their national champions. In the US, it was the federal government which in 1993 summoned defence contractors to "the last supper" to tell them they would not all survive.

This is not to minimise Europe's obstacles. It does not, like the US industry, have only one large customer. Nor should one belittle the progress already made. European consolidation has led to the absorption of such venerable names as Hawker Siddeley and Sud Aviation. It was the success of Airbus which forced McDonnell Douglas to merge with Boeing.

Nevertheless, Germany, the UK, France, Sweden, Italy and Spain together have a defence budget less than half that of the US – and three times as many defence contractors. The companies can discuss mergers. But as Sir Richard Evans, BAe's chief executive, has pointed out, it is not just European defence supply which is too fragmented; so is government demand. The industry does need to draw up a concrete action plan. But so do the governments.

French drive

Toyota Motor's decision to build a $615m assembly plant in France is an important vote of confidence in the French economy. Its enthusiastic reception by Paris reflects a welcome change in French attitudes to foreign investment over the past decade – especially to Japanese investment.

Toyota's choice has naturally caused some dismay in the UK, where the government had hoped the new plant would go alongside Toyota's existing works at Burnaston in Derbyshire.

However, the decision does not indicate a loss of faith in the UK or in British policy towards the European Union. Although Hiroshi Okuda, the Toyota president, remarked last year that a decision to stay out of monetary union might affect the UK's prospects of attracting future investment, he subsequently explained that currencies were only one factor among many influencing his decision.

In the short term the most cost-effective option for Toyota would have been expanding Burnaston. But this huge group's ambition is to build a global business like General Motors. Sensibly, it wants to diversify geographically in Europe to spread its commercial and political connections.

France is a logical choice for a second European presence. Its markets have proved almost impenetrable to Japanese producers. Local production could give Toyota the market access it craves. Northern France, with its good transport links, is close enough to the Channel tunnel for access to UK parts suppliers and to export markets in eastern and southern Europe, where there is demand for small cars.

A decade ago a Japanese carmaker's plan to invest in France would have run into intense hostility. French motor industry leaders, led by Jacques Calvet, the Peugeot chairman, denounced Japanese investments in the UK as a "Trojan horse", breaching Europe's defences against unfair competition. But yesterday Mr Calvet was uncharacteristically quiet.

France has already done much to open its doors to foreign investment. While its stock of foreign direct investment lags behind that of the UK, the leading EU destination, Germany and the Netherlands, it is making up lost ground. In 1990-96, France attracted the most foreign investment among European countries in four years and came second to the UK in the other three, according to United Nations data.

However, the country's reputation has suffered from periodic outbursts of xenophobia – such as last year's U-turn on plans to sell Thomson-CSF's consumer electronics business to South Korea's Daewoo. Toyota's decision to choose France will go a long way to dispelling the clouds of the Daewoo affair.

A hurrying sickness

Fund managers love the fashion for global consolidation. **Jane Martinson** wonders how this will affect their clients

What counts as big in fund management just got bigger. This week's merger of Swiss Bank Corporation and Union Bank of Switzerland creates the world's largest fund manager with assets, including those from private banking, of $920bn (£550bn).

This is just one of many mergers. The deal, comes soon after the offer by Merrill Lynch, the US investment bank, for Mercury Asset Management, the UK's leading pension fund manager, which would create a fund management firm with around $400bn of assets. Other mergers involving fund managers include the $10.6bn acquisition of Dean Witter Discover by Morgan Stanley, the US investment bank, this year and the $7.8bn merger of two insurance groups, Axa and Union des Assurances de Paris. After this deal, Axa was briefly the world's second-largest fund manager.

Two years ago, a managing director of Goldman Sachs, Milton Berlinski predicted there would be only 20-25 global fund management companies by the end of the century, instead of the hundreds of largely national ones then. His prediction was greeted with scepticism. Now it seems to err on the side of caution.

In the year to March, the world's top 10 fund managers increased assets under management from $3,492bn to $4,220bn, according to research by Pensions and Investment and Watson Wyatt, the consultants. Part of the increase came from organic growth, but the larger part derived from mergers which propelled new and larger groups into the top 10.

And if you cannot get bigger, you have to get out. A useful gauge of the scale of the change, and its implications, is the fate of LGT Asset Management. When LGT bought Chancellor of the US 18 months ago, it hoped to leap into the ranks of the world's 50 largest fund managers. Now, with assets of $65bn, it is struggling to be included in the industry's top 100.

"That's the measure of how much the world has changed," says Roger Yates, chief investment officer of the combined company. "To compete on a global scale requires a level of financial clout and assets under management which is fundamentally different from 18 months ago." LGT, owned by Prince Philip of Liechtenstein, decided to sell the asset management business rather than compete.

But what is behind this rush towards consolidation? And does it really make business sense?

Those who welcome the trend use four arguments to justify it.

● First, they say, their customer base is changing. People are becoming wealthier. Beset by doubts about the future of state pensions, they are more concerned to set money aside to finance their retirement. Smith Barney, the US investment bank, estimated last month that the global retirement savings market of about $20,000bn will continue to expand at about 10 per cent annually over the next five to 10 years. Fund managers also reckon an emerging market fund or specialised US equity product can be sold as easily to a Hong Kong shopkeeper as to a Milwaukee dentist.

● The second argument concerns distribution.

If there is an emerging group of savers worldwide, you need a worldwide distribution team to sell them financial products. MAM and Merrill Lynch stressed the benefits of a global distribution network in outlining their deal. MAM, which had failed to enter the US market in any significant way, would gain 13,000 US salesmen for its retail products. Merrill Lynch, meanwhile, gains an institutional brand name in the UK and stronger position in markets such as Japan and Germany. "In a sense we're no different from industries like pharmaceuticals or automotives," says Mr Yates at LGT. "We manufacture and want to distribute that manufacturing capability globally."

● The third argument concerns costs. Information technology is becoming more important in designing and selling financial products and its rising price is putting it beyond the scope of smaller companies. Few can approach the $500m that Fidelity Investments, the world's largest independent fund manager, spends on systems each year.

Salaries are also rocketing. As in investment banking, this increase falls particularly heavily on medium-sized groups that want to attract and retain staff. Henderson Investors, a medium-sized independent UK fund manager, announced an 18 per cent increase in interim costs last month after spending £2m on an additional incentive scheme for fund managers. This sum represented almost 20 per cent of pre-tax profits in the period.

● Last, there is a simple, but compelling argument: the trend may be a self-fulfilling prophecy. Mr Berlinski, of Goldman Sachs, is convinced consolidation will continue. "If you think of total globalisation as a 100 per cent process then we're 40 per cent of the way there."

Philip Middleton, a partner in the strategy department of KPMG, the accountants, agrees. "We're certainly not at the end of the game – it's more like the beginning. And it will all start becoming much more Darwinian from now on."

If so, then companies need to get on to the consolidation wave early. That is roughly the line taken by both sides in the proposed MAM/Merrill merger. Hugh Stevenson, MAM's chairman, says: "We believe our industry will be dominated by a handful of firms. This acquisition will ensure our place as a global leader."

The argument would apply even to those who worry about the furious pace of change. On the face of it, you might expect them to stand aside from the fray. In fact, they might not do so, for fear of being gobbled up. If, on the other hand, they take the initiative (by acquiring another company), they might still hope to be around later to sort out the consequences.

In short, everything seems to be shouting "bigger is better" in the fund management business. But is that really true? In practice, few takeovers have worked well. Most have been fraught with difficulties. And no one has been able to show how the theoretical justifications for merging or moving abroad actually translate into higher earnings.

"There is no role model for globalisation" says Anthony Watson, managing director of AMP Asset Management, which manages some £44bn of funds. "Where is the company saying: 'This is how you extract huge synergies from operating in different countries'?"

Watson Wyatt, a leading firm of UK pension fund consultants, says a globally successful company needs: consistency of products in different markets, equal access to research for all its branches, the use of global expertise for all clients, a culture that rewards global success, a strong global brand and a significant share in all major markets. So far, no company in the world can boast it has achieved all six. No one at all has mastered the last two.

One problem is that fund management is a business that depends on personal contacts and subjective decision making. Roger Urwin, head of investment practice at Watson Wyatt, believes that mergers between two fund managers tend to dilute investment management skills. "Two cultures together always make less than the whole and we believe investment culture is one of the key determinants of future performance success," he says.

Takeovers are often followed by staff defections and client losses even though most deals are friendly. For example, Merrill's acquisition of Hotchkis Wiley, a relatively small US fund manager, was followed by the departure of several leading managers from its bond team. Few in the industry can point out an example of a successfully integrated fund management company.

More important, many clients do not like change. Most critics highlight the effect on institutional clients, who prefer to be served by smaller, local providers whom they know. One pension fund consultant summed up the proposed merger of MAM and Merrill thus: "There seems to be a lot in it for everybody – except the clients." One of MAM's UK clients said: "If I'd wanted Merrill Lynch, I would have appointed them."

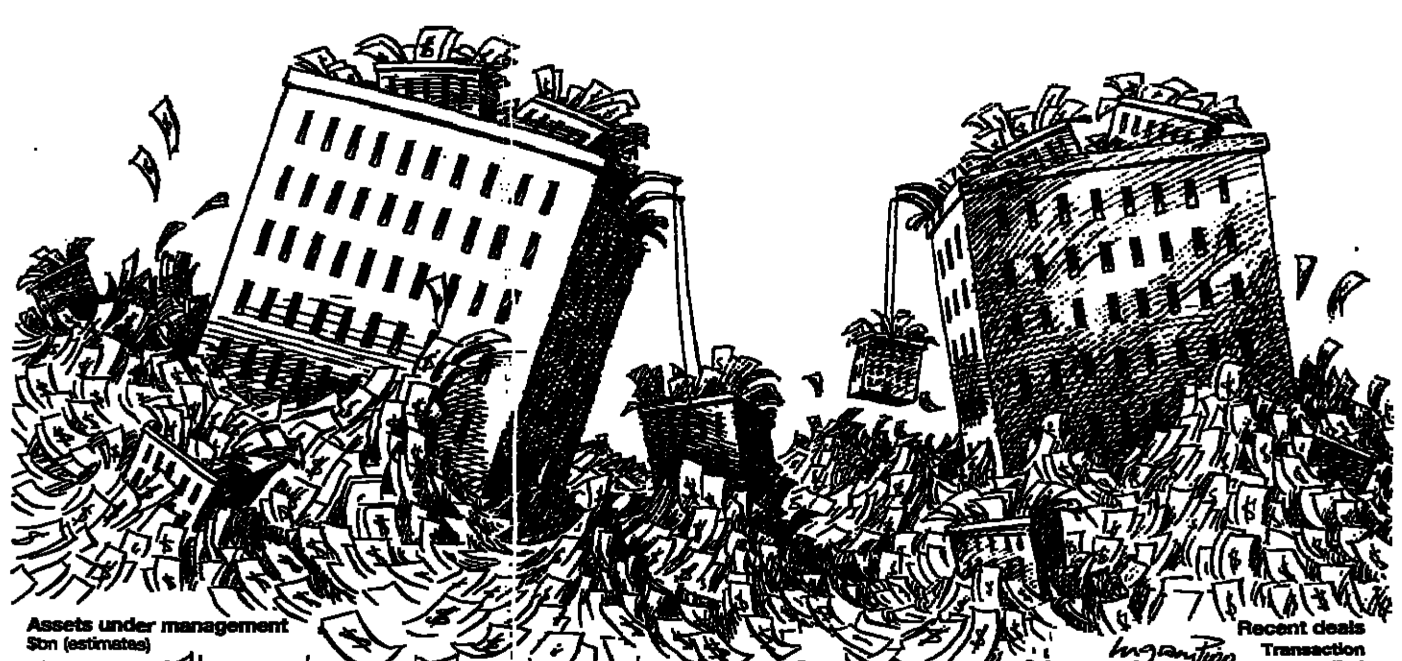
The Swiss merger caused immediate concern because of feared upheaval at PDFM, one of the UK's top three pension fund managers, which is owned by UBS. The group has not suffered severe client losses in spite of poor performance over the past two years, partly because clients liked PDFM's autonomy.

Antagonism to new managers is not limited to acquisitive groups. Fund management companies that have sought to enter non-domestic markets through organic growth have also had a difficult time – a plank in the argument of acquisitive groups. Large US companies such as Fidelity and JP Morgan have spent more than 20 years in the UK and have still failed to gain significant market share among institutional clients.

And they are not subject to the management difficulties of a merged group. Fidelity, which is more successful in the (somewhat easier to enter) retail market, claims to be seen as a "UK company" by the average British investor.

All the various criticisms of the reasons for mergers and their success rate are unlikely to stifle merger mania. Roger Urwin at Watson Wyatt believes that acquirers will ultimately gain market share at the expense of companies that have concentrated on growing organically.

"It's not because it's a superior method," he says. "But it's the only way to get there quickly. There seems to be a hurrying sickness out there at the moment and I can't see what's going to stop it."



Assets under management
$bn (estimates)

SBC/UBS	Switzerland
Kampo	Japan
Fidelity	US
Axa	France
Barclays	UK
Merrill Lynch/MAM	US/UK
Credit Suisse	Switzerland
Prudential	US
Nippon	Japan
Zurich	Switzerland

Recent deals

Buyer	Seller	Transaction amount ($m)
Morgan Stanley	Dean Witter Discover	10,573
Travelers Group	Salomon Inc./Smith Barney	9,000
Axa	Union des Assurances de Paris	7,800
Franklin Templeton	Mutual Series	6,100
Bankers Trust	Alex Brown	2,000
Royal Bank of Canada	London Insurance	1,740
Zurich Insurance	Scudder Stevens	1,700
Invesco	Aim Management Group	1,600
NationsBank	Montgomery Securities	1,200
J.P. Morgan	American Century	900
Morgan Stanley	Van Kampen American Capital	800
Swiss Bank	Dillon Read & Co.	600
NatWest	Greenwich Capital Holdings	600

Source: Institutional Investor; UBS; SBC; The Banker; The Economist

· OBSERVER ·

Crater maker

■ French presidents have always had a penchant for building monuments and Valéry Giscard d'Estaing, who left behind the trappings of power in 1981, hasn't lost the bug. He's trying to build a top-notch tourist attraction in his native Auvergne – and facing stiff opposition.

The former president is an enthusiastic supporter of Vulcania, a planned FFr400m museum and activity centre paying tribute to the natural wonders of the bumpy region in central France. Ancient volcanoes surround the site and the whole grand design is meant to educate, entertain and boost the local economy.

But environmentalists – who've dubbed the centre *Giscardoscope*, after the *Futuroscope* theme park near Poitiers – fear that an eruption in the tourist trade could lead to an undesirable transformation of the local landscape. They're a determined bunch and the *heated battle has ended up in* court.

A judge in Lyon yesterday ruled in favour of the environmental lobby, pushing back the start of construction still further. The saga is already moving at a geological pace – and Giscard's plan to go out with a bang could yet be reduced to a fizzle.

Favourite sun

■ The Canadian senate doesn't have a dynamic reputation, but the antics of one long-serving member has stirred the upper chamber into action. Preferring the sunny climate of Mexico to cold old Ottowa, 73-year-old Andrew Thompson has turned up for only 12 of the last 459 senate sittings.

Thompson, a former leader of the Liberal party's Ontario wing, can't be ejected from the upper house until he reaches the mandatory retirement age of 75. But prime minister Jean Chretien recently expelled him from the Liberal caucus and his fellow senators – political appointees who have a hard time with their public image – are none too pleased.

The sunshine senator initially claimed he was performing humanitarian work down Mexico way; his wife later said he was in La Paz to receive medical treatment. Now, *hounded by prying journalists*, Thompson has lashed out and criticised the senate as a "pompous" institution.

Stung into action, the upper chamber is now debating whether to strip the political veteran of his C$75,000 salary and C$90,000 office allowance. He may have to cut down on tanning lotion.

Table manners

■ It's only a few months since Hong Kong citizens jostled in queues to pick up application forms for shares in "red chips", the China-backed companies which were tipped as money-spinners.

But now that the stock market has wilted and property prices have dipped, nobody seems that interested in the forthcoming share offering from Tianjin municipality. Staff at one Bank of China branch, on a busy downtown thoroughfare, got fed up *waiting for potential punters* – so they piled up prospectuses on a table outside the door. Desperate times, desperate measures.

Shoe in

■ It looks like Rod Tidwell, the character played by Cuba Gooding in the film *Jerry Maguire*, will at last get an *apology from Reebok*.

The sports shoe maker put some money into the film, and provided sports gear and the time of genuine athletes who endorse its products: in return, the movie was meant to give Reebok "visibility". But it didn't like the sort of visibility it got.

Reebok had expected the film to conclude with a fictional commercial the company helped make, which said: "Rod Tidwell. We didn't notice you for four seasons. We're sorry." But the scene was scrapped because director Cameron Crowe thought it ruined the story. So the only reference to Reebok in *Jerry Maguire* was Tidwell railing at the company.

A lawsuit between Reebok and Sony, the film's maker, has been settled out of court. The original ending will be restored to a new version of the film to be shown on cable television.

Question time

■ Japan's financial crisis is causing problems even for strong banks like Bank of Tokyo-Mitsubishi, which took in Y450bn of savings last month. It seems potential customers are phoning at all hours to pose tricky questions about the bank's financial position.

A few weeks ago most Japanese had never heard of Moody's credit ratings, BIS ratios or banking regulatory requirements. Now the public is obsessively well-primed. "We have old ladies calling up and demanding precise details about our equity portfolios," says one exhausted official. "It's quite a challenge for our staff."

The Financial Times

100 years ago

Germany And Standard Oil
Berlin, 9th Dec. In reply to an interpellation of Herr Bassermann in the Reichstag to-day asking what measures the Federal Government propose to take in order to thwart the efforts of the Standard Oil Company to monopolise the German petroleum trade, Count Posadowsky said the Imperial Government was aiding the competition of German spirits of wine with petroleum. He hoped the efforts being made to improve the spirit lamp would succeed before long. An increase in Customs duty on American petroleum was a point to be considered.

50 years ago

India And Pakistan
New Delhi, 9th Dec. India and Pakistan have reached complete agreement on all partition questions, including division of the Armed Forces, Sardar Vallabhbhai Patel, Indian Deputy Prime Minister, told the Constituent Assembly here to-day. Main items on which agreement has been reached included, he said:- Division of the cash balances held by the former Government of India on 14th August 1947 (the day before partition); division of sterling balances between the two Dominions; division of military stores and ordnance factories.

FINANCIAL TIMES
Wednesday December 10 1997

Ruling puts pressure on UK over Irish beef row

France rapped for lack of action on blockades

By Michael Smith in Brussels

The European Court of Justice yesterday reprimanded France for failing to ensure that imports of such goods as Spanish strawberries and Belgian tomatoes were able to get through French farmers' blockades.

Its landmark ruling was hailed by the European Commission as providing clear case law and a warning to other member states. The commission first complained against French inaction in 1985 and was supported by the Spanish and UK governments.

The ruling puts the UK government under increasing pressure to ensure imports of Irish beef get through blockades currently being mounted at British ports by farmers seeking greater state help in the wake of the BSE crisis.

It came as Lord Simon of Highbury, UK trade minister, wrote to the Commission to say his government was "making serious efforts" to avoid trade disruption caused by farmers attacking cheap beef imports. "The government takes a threat to trade extremely seriously," he said.

The Commission had asked for an explanation by yesterday amid concerns the UK government was not adopting a tough enough attitude. It will consider its response today.

The European court was told lorry loads of goods in France were intercepted and destroyed over 10 years and wholesalers and retailers were repeatedly threatened.

It said the French government "manifestly and persistently abstained from adopting adequate measures to end the acts of vandalism" by French farmers over a decade from 1985 and so had failed to fulfil obligations under European Union law.

It said the Commission could seek fines against France if similar action recurred. Traders and others affected by the farmers' action are able to apply through their national courts for compensation.

The court said free movement of goods was one of the fundamental freedoms enshrined in the European Union treaties.

It said member states retained exclusive competence to determine what measures were most appropriate to the free movement of goods but the courts would verify the adequacy of such measures.

The court dismissed the French government's contention that more determined action by the police against the protestors might have provoked more violent reactions. It said the apprehension of internal difficulties did not justify a failure to apply law correctly.

The court also rejected any notion that the French government's compensation of victims was a justification for inaction.

The judgment could have significant implications for the French government, which has repeatedly maintained a low-key presence in the face of disruptive action launched by a range of protest groups.

US deal thrown out, Page 3
Farmers' envy, Page 10

Emission talks edge towards world treaty

By Leyla Boulton, Environment Correspondent, in Kyoto

The leaders of Japan, the United States, Germany and Britain last night threw their weight behind last-ditch efforts to agree the world's first legally binding treaty to fight climate change.

Ryutaro Hashimoto, the Japanese prime minister, engaged in frantic telephone diplomacy with President Bill Clinton of the US, Chancellor Helmut Kohl of Germany and Tony Blair, the British prime minister, as negotiators at Kyoto edged closer to a deal.

Officials said a proposed compromise during last night's talks set a common target for the US, Japan and the European Union to reduce their emissions of greenhouse gases linked with global warming by 2010. The US entered the Kyoto negotiations with a target of stabilising emissions at 1990 levels, Japan proposed a 2.5 per cent cut and the EU a 15 per cent reduction.

The compromise proposal would aim to reduce emissions of six greenhouse gases rather than the three proposed by the EU. The new target is believed to be closer to 5 per cent reductions for the EU, Japan and the US, the world's biggest single emitter of greenhouse gases.

John Prescott, the UK deputy prime minister and a senior EU negotiator, hinted that such a deal might be forthcoming when he said it was "far better to have a smaller number than a large number which everyone understands is a fiddle".

Stuart Eizenstat, the US undersecretary of state, claimed the priority was to reach a solid, if modest, deal rather than agreeing on nothing at all. "The highest hopes are not going to be satisfied here," he said.

The negotiations on a compromise, which ended at 3am Japanese time, followed a day of surprise initiatives for breaking the logjam over emission reduction targets for industrialised countries. This is the negotiators' first task before they can approach developing countries.

The US took the initiative by proposing a common emissions reduction target for itself, Japan, Canada, Australia, New Zealand, Russia and any other nation that wished to join. The proposal effectively copies an EU plan which would allow individual EU states differentiated targets for achieving a common flat-rate reduction target.

The talks close today unless ministers agree an extra day.

Global dealers could beat pollution, Page 8

THE LEX COLUMN

Slow march

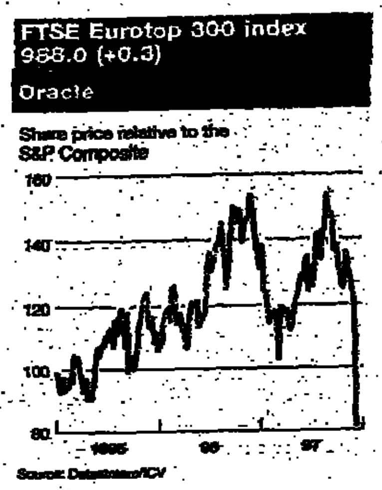
The willingness of the French, German and UK governments to knock heads together to speed up the consolidation of their fragmented defence industries should be welcomed. What is worrying about yesterday's statement is its leisurely timetable. It took four years of government prodding for the private-sector US industry to reach its current streamlined structure. The European industry has problems, relating to national security, procurement and ownership, that are likely to prove far more intractable.

For the three governments to say they see a new European conglomerate being formed around Airbus, the civil aircraft manufacturer, is easy enough. But it is hard to see how Daimler-Benz, Aerospatiale and British Aerospace can agree on ownership on any terms other than purely commercial ones. With the French defence industry likely to remain largely in state hands, valuing each company's assets will be extremely hard. If valued on the basis of profitability, either British Aerospace or its shareholders – if all companies were subsumed within Airbus – could end up with a holding too large for the French government to accept.

Furthermore, with France signalling its intention to remain a substantial shareholder in an enlarged Airbus, it is doubtful if the real benefits of consolidation can be realised. If political forces interfere with management decisions, much-needed cost-cutting may be fudged.

FTSE Eurotop 300 index
988.0 (+0.3)

Oracle



Source: Datastream/ICV

Japan

The latest scheme for recapitalising Japan's troubled banks carries two big risks. The first is that the terminally ill will be bailed out along with the merely sick; and unless there is a shake-out, even the half-good banks will find it hard to make decent profits. The second is that public funds will be wasted. Even in Japanese terms, Y10,000bn ($78.7bn) is big money.

None of this, though, means recapitalising the sector is bad – merely that there are better ways of achieving it. Why, for example, should the government not acquire the banks' vast equity holdings? If that was done at market price, their capital ratios would improve and there would be no question of a subsidy. Indeed, the state could fund the purchase by issuing bonds convertible into Japanese shares. When the market eventually rose, the bonds would convert. In the interim – given that the yield on government debt is so low – the state might even make a profit.

Such a scheme would have many additional attractions. First, it would separate the wheat from the chaff, as some banks would still be too weak to survive. Second, it would sever the link between the banking sector's capital and the level of the market – a link that has been so damaging in the past. Third, it would lead to an unravelling of the *keiretsu* system of cross-shareholdings. That would improve stock-market liquidity, enable hostile takeovers and enhance corporate accountability – in short, create a modern financial system.

Oracle

Despite its name, Oracle, has demonstrated an utter lack of foresight. The US software group failed to anticipate how badly it would be affected by Asia's crisis: and it surely did not expect the savage punishment meted out to its shares, which plunged 29 per cent in immediate response. It is hard to fault the market's reaction. Having just reported essentially flat earnings, Oracle hardly deserves its historic price/earnings multiple of 40 times.

What should investors make of this episode? The first, still tentative, conclusion is that Asia's problems are having a greater and more rapid impact on US profits than most economists have so far predicted. Oracle's expectation that growth in regional demand for its products could slow from 60 per cent last year to nearly nothing next year is certainly frightening.

The second worry is the fall in domestic demand for Oracle's core database software. Add in recent problems at networking companies like 3Com and component makers such as Western Digital, and it starts to look as if the technology sector, such a prop of the US bull market, is running out of steam. This is probably wide of the mark. Unit sales of personal computers are rising at a healthy 15 per cent and European demand has picked up as Asian growth has slowed. Prospects for Microsoft and the big PC assemblers such as Dell and Compaq continue to look solid. But outside that group of blue-chip stocks, investors would do well to heed the Oracle's warning.

US television

Michael Armstrong, AT&T's new chairman, seems to have no scruples about slaughtering sacred cows. Virtually his first public action has been to cut the telecommunications group's links with DirecTV – an alliance he negotiated in his former role as head of the satellite television business.

The decision makes sense for both sides. When AT&T trumpeted the alliance 18 months ago, it hoped to add satellite TV to a broad package of services. In practice, its marketing arm found subscriptions difficult to sell and impossible to install and service, given its lack of local infrastructure. AT&T will now be free to pursue alliances with cable TV operators, which already have that local presence, and their high-capacity lines will allow AT&T to expand its internet services. Meanwhile, DirecTV will be able to sign up more effective marketing partners, such as local electronics stores and phone companies.

AT&T's move is another vote of confidence in the US cable industry, following Microsoft's decision to invest $1bn in Comcast this summer. Coupled with steady increases in underlying cash flows, this has led valuations of cable companies to soar this year. In contrast, satellite television is losing some shine. Both the UK's British Sky Broadcasting and DF1 in Germany are facing increasing competition, while DirecTV's US subscriber growth has slowed. Revealingly, AT&T was happy to sell back its 2.5 per cent stake in DirecTV and walk away with a mere 10 per cent return.

Additional Lex comment on Scotia Holdings, Page 22

Japan plans bond issue to aid economy

Continued from Page 1

Mr Hashimoto is also under intense political pressure from Japan's main trading partners, in particular the US, to revive the economy by boosting domestic demand rather than relying on a resurgence of exports.

Some top bureaucrats yesterday reacted to the idea with unease, but senior politicians appeared to back the scheme. Koji Omi, head of Japan's economic planning agency, said the idea was "sensible". Hiroshi Mitsuzuka, finance minister, said if concrete plans emerged he "would support it", even though bureaucrats in his ministry have been the strongest opponents of any move to enlarge Japan's budget deficit.

The yield on the benchmark long-term government bond rose to 1.67 per cent from 1.58 per cent on Monday, and the Nikkei index of 225 leading shares rose 554.94 points to close at 16,686.51.

The new bonds would be backed by the proceeds from the sale of government-owned shares in Nippon Telegraph and Telephone and Japan Tobacco.

This would avoid using funds from the general budget.

"This means the impact on the budget deficit would be partly disguised," said one official. "It would avoid Hashimoto having to publicly admit to a U-turn."

Britain rejects Emu euro club proposal

By Robert Peston in London and Ralph Atkins in Bonn

The UK government last night rejected a compromise offer made by Dominique Strauss-Kahn, the French finance minister, over the creation of a "euro club" of economic and monetary union members.

After 48 hours of furious diplomatic activity by Tony Blair, the UK prime minister, and Gordon Brown, his chancellor, this weekend's European Union summit in Luxembourg looks set to be dominated by attempts to bridge the Anglo-French gap.

The main stumbling block remains the UK's demand that it and other countries outside the new currency after the 1999 launch should be members of the euro club.

The French government has consistently said only those countries participating in Emu should belong to the club. But yesterday Mr Strauss-Kahn offered what he hoped was an olive branch.

He suggested the club could make information available to those not participating in Emu and that they could be "invited" to take part in its meetings "for specific topics".

However, Mr Brown is insistent that the UK and others outside Emu should "as a matter of course" participate in club meetings.

Under the UK proposal, the "outs" would withdraw from the club for discussions covering specified Emu issues, such as the new European central bank's interest rate policies and the possible exchange rate at which an "out" might join Emu.

Another issue that could be reserved for those signed up to the euro might be exchange rate policy for the new currency, although Mr Brown has not decided whether he is prepared to be excluded from discussions on this since it would have implications for sterling.

He has said that even if the club is not a formal decision-making body, the absence of non-Emu members would create a two-tier European Union.

However, his economic adviser refused to rule out accepting another compromise mooted by the French that would allow the club to differentiate between non-participants in Emu depending on their commitment to sign up eventually for the euro.

This could enable the UK to join the club, given Mr Brown's recent statement of intent to participate in Emu, but would exclude Sweden and Denmark which have failed to make similar declarations.

One non-negotiable UK demand is that Ecofin, the EU's council of finance ministers, should remain the sole important decision-making body for European economic issues.

Turkey warns EU against rejection, Page 2

FT WEATHER GUIDE

Europe today

Scandinavia and the Baltic states will be windy but quite mild. There will be outbreaks of rain, with any snow confined to eastern Finland and the far north. Most of eastern Europe will be dry, but in the south-east early morning fog will be slow to clear. Rain will move across north-west and western Europe and into central areas later, and the wind will increase. Most of Italy and Greece will be fine, apart from some showers early on in the south. Turkey and the eastern Mediterranean will become clearer after some heavy showers. The Iberian Peninsula will be mostly fine, but rain will move into the north-west.

Five-day forecast

Most of the continent will stay quite mild, but it will turn colder over the north-west and Scandinavia, where snow showers are likely. By the end of the week, central Europe and the Mediterranean will have more showery rain, and it could turn heavy at times.

TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum/ Celcius/	Beijing	Fair 2	Cardiff	Shower 13	Frankfurt	Rain 8	Madrid	Cloudy 13	Rangoon	Fair 34
		Belfast	Shower 12	Casablanca	Fair 20	Geneva	Shower 5	Majorca	Fair 18	Reykjavik	Sleet 3
Abu Dhabi	Sun 26	Belgrade	Fair 4	Chicago	Snow 0	Gibraltar	Shower 20	Malta	Shower 17	Rio	Thunder 28
Accra	Fair 30	Berlin	Rain 6	Cologne	Rain 10	Glasgow	Shower 10	Manchester	Shower 12	Rome	Fair 14
Algiers	Fair 18	Bermuda	Shower 23	Dakar	Sun 27	Hamburg	Rain 10	Manila	Thunder 29	S. Frsco	Sun 16
Amsterdam	Rain 11	Bogota	Thunder 20	Dallas	Fair 4	Helsinki	Drzzl 4	Melbourne	Sun 29	Seoul	Fair -2
Athens	Fair 13	Bombay	Sun 27	Delhi	Fair 24	Hong Kong	Fair 15	Mexico City	Fair 25	Singapore	Thunder 29
Atlanta	Fair 11	Brussels	Rain 12	Dubai	Cloudy 25	Honolulu	Fair 27	Miami	Thunder 29	Stockholm	Shower 6
B. Aires	Fair 29	Budapest	Fair 3	Dublin	Shower 12	Istanbul	Cloudy 9	Milan	Fair 9	Strasbourg	Rain 8
B.ham	Showers 13	C.hagen	Rain 7	Dubrovnik	Shower 13	Jakarta	Thunder 27	Montreal	Cloudy -1	Sydney	Fair 22
Bangkok	Fair 35	Cairo	Fair 21	Edinburgh	Shower 10	Jersey	Shower 14	Moscow	Snow -6	Tangier	Shower 20
Barcelona	Fair 16	Caracas	Fair 31	Faro	Fair 19	Johannesburg	Fair 26	Munich	Shower 6	Tel Aviv	Thunder 19
						Karachi	Sun 29	Nairobi	Thunder 25	Tokyo	Shower 12
						Kuwait	Fair 24	Naples	Fair 15	Toronto	Snow -3
						L. Angeles	Sun 22	Nassau	Fair 28	Vancouver	Rain 10
						Las Palmas	Fair 25	New York	Rain 6	Venice	Fair 10
						Lima	Cloudy 27	Nice	Sun 15	Vienna	Rain 4
						Lisbon	Fair 17	Nicosia	Shower 20	Warsaw	Rain 4
						London	Shower 14	Oslo	Rain 4	Washington	Rain 11
						Lux.bourg	Rain 8	Paris	Rain 13	Wellington	Fair 15
						Lyon	Shower 9	Perth	Fair 34	Winnipeg	Sun -4
						Madeira	Fair 22	Prague	Shower 3	Zurich	Shower 5

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday December 10 1997 — Week 50

INSIDE

Gold price falls to 18-year low

The price of gold has fallen to its lowest level for 18 years. Analysts said there was no sign of a recovery nor any reason why there should be one. Gold fell in London yesterday afternoon to $283.25 an ounce, the lowest since August 1979. It lost further ground to end at $281.15. Page 27

Family man takes the helm at Mazda

Even by the standards of Japan's courteous business community, James Miller, the new president of Mazda, comes across as unusually soft-hearted. Mr Miller (left), an American, who last month became only the second foreigner to head a leading Japanese manufacturer, likes to talk about the importance of the Mazda family. The group's 25,000 employees, he says, are "what make our company what it is today and what it can be in the future". Page 19

Why Irish eyes are smiling

Charlie McCreevy, Ireland's finance minister, has lived up to his reputation as the businessman's friend. In last week's budget he halved capital gains tax and cut corporation tax. The Irish stock market is up 45 per cent this year and closed at a record high yesterday. Page 38

Unocal finds gas off Vietnam coast

Unocal, the Los Angeles-based energy company, said it had found gas off the coast of Vietnam. The find was made near the Gulf of Thailand, about 480km south-west of Vung Tau. Page 27

Companies in this issue

Market Statistics — http://www.FT.com

CROSSWORD, Page 27

Chief price changes yesterday

FRANKFURT (DM)		
Rises		
Alco Feust	260	+ 8
Henkel	115	+ 5
Veit Hldgs	26.7	+ 1.2
Falls		
Acestal	265.1	- 24.9
Rinol	50	- 4
Sixt	140.5	- 8
NEW YORK ($)		
Rises		
CPI Corp	21⅛	+ 2
DST Systems	43⅞	+ 3¾
Iasco	43⅛	+ 3⅛
Falls		
Incomnet	20¾	- 2¼
Sun Gulmics	43⅜	- 3½
The Mills	25¼	- 2½
LONDON (Pence)		
Rises		
Barclays	1639	+ 58
Halma	118½	+ 16
Safeway	338	+ 13
Falls		
Delcam	165	- 62½
Matt. Clark	183½	- 48½
Rentals	685	- 21
TORONTO (C$)		
Rises		
Kingsway	25.00	+ 2.50
Pinogen	5.90	+ 0.80
Tel MT Ltd	19.15	+ 1.15
Falls		
Greenstone Rs	4.90	- 0.55
Poolrite	5.75	- 0.55
Repadre RSC	4.80	- 1.35
PARIS (FFr)		
Rises		
Bqe Petrofigaz	11.6	+ 3.5
Devillé	82.1	+ 8.4
Idianova	69.9	+ 8.3
Falls		
Bail Scom	83	- 16.9
Prodifa	24	- 2.7
Sidenabes	321	- 69
TOKYO (Yen)		
Rises		
CSK	3850	+ 110
Konica	888	+ 59
Pioneer	2350	+ 120
Toyo Tire	320	+ 28
Yasuai	180	+ 16
Falls		
Morishita Kasai	3820	- 90
HONG KONG (HK$)		
Rises		
Cross-Har	13.60	+ 0.25
Harbour Centre	8.10	+ 0.10
Jardine Intl	4.82	+ 0.17
Falls		
Bk of E Asia	19	- 0.30
Cosco Pac	7.35	- 0.15
Wharf Hldgs	15.65	- 0.60
BANGKOK (Baht)		
Rises		
Charoen Inc	24.00	+ 4.00
Metro Systems	8.10	+ 1.80
Thai Coast	37.00	+ 8.00
Tongkah Hbr	8.90	+ 1.40
Falls		
Fundmnex	11.50	- 4.25
Siam Steel	13.00	- 4.75

New York & Toronto prices at 12.30.

Philip Morris to restructure Kraft Foods

By Richard Tomkins in New York

Philip Morris, the US tobacco and food group, is to take a $630m charge to restructure its poorly performing Kraft Foods International business. The company will cut 2,500 jobs, 8 per cent of the subsidiary's workforce, in the next three years.

Analysts said most of the cuts seemed likely to fall in Europe, which accounts for about 80 per cent of Kraft's revenues. Its big brands include Maxwell House, Jacobs, Suchard, Toblerone and Philadelphia.

Philip Morris said the restructuring would include the sale of, or exit from, non-strategic businesses; the closure of several manufacturing plants; and the consolidation of sales and administration.

"The company anticipates that these restructuring actions will enable its international food operations to compete more effectively by streamlining capacity, standardising product formulations and packaging, and consolidating administrative support, as well as through the unification of its salesforces in key markets," Philip Morris said.

The cuts would result in a pre-tax restructuring charge of $630m to fourth-quarter profits, the company said. But it expected them to produce annual savings of up to $200m by 2000.

Kraft has been struggling for most of this year. In the third quarter it reported an 11 per cent fall in operating profits to $260m, blaming lower coffee volumes, higher commodity costs and unfavourable exchange rates.

Martin Feldman, an analyst at Salomon Smith Barney, said: "I think what has happened is that the business has been built up through a large number of acquisitions, and they haven't really cut costs as aggressively as is the Philip Morris style elsewhere in the overall group."

Philip Morris is headed by a tough, cost-conscious chairman and chief executive, Geoffrey Bible, who has already taken steps to rationalise its Kraft business in North America. Mr Bible has sold low-margin food businesses and closed unproductive manufacturing capacity.

For investors, one worrying aspect of the announcement was that it highlighted Philip Morris's exposure to recent shifts in exchange rates.

In early afternoon, however, trading shares were down just $⅛ at $44⅝, apparently reflecting hopes that the effects would be at least partially offset by the restructuring.

Geoffrey Bible, chairman of Philip Morris, the US tobacco and food group, which announced cuts of 2,500 jobs at its poorly performing Kraft Foods International business Picture: AP

Deal to make new microprocessors

SGS-Thomson in Hitachi link

By Michiyo Nakamoto in Tokyo and Paul Taylor in London

SGS-Thomson, the Franco-Italian chip manufacturer, and Hitachi, the Japanese integrated electronics group, are to work together on the next generation of microprocessors which will be used in consumer electronics and multimedia applications.

The companies will jointly develop the high-powered 64-bit microprocessors, using Hitachi's SuperH technology, which are expected to be used in set-top boxes, digital video products, car navigation systems and other systems.

The agreement is the second deal in recent weeks involving leading European and Japanese chip makers. Last month, NEC, Japan's largest semiconductor maker, and Philips of the Netherlands announced a similar strategic partnership.

It is also an important move for both SGS and Hitachi and highlights the growing battle for control of the market for microprocessors used to control devices other than personal computers.

It will provide SGS-Thomson, already one of Europe's leading chip makers, with access to next-generation technology while providing Hitachi with a further important strategic partner for its proprietary chip designs

Hitachi has signed agreements with Seiko Epson and VLSI, the US semiconductor company, covering its SuperH architecture, which accounts for the highest shipments in the 32-bit Risc (Reduced instruction set computing) microprocessor market, according to industry estimates.

Intel, the world's largest semiconductor company, dominates the market for microprocessors used in PCs but faces greater competition in electronics markets such as set-top television boxes and other consumer devices.

Hitachi's technology agreements are designed to strengthen the position of its SuperH proprietary chip designs.

Hitachi, which forecasts revenues of Y190bn ($1.46bn) this year in its microprocessor business, has particular expertise in consumer and industrial products. SGS-Thomson has strength in building microprocessors for devices including set-top boxes and satellite navigation systems.

Alliance set to mount French telecoms challenge

Three international groups to link ahead of opening of markets

By Alan Cane in London

Bouygues, the French construction group, which operates the third largest mobile phone service in France, is moving into fixed line services in co-operation with Veba of Germany and Telecom Italia.

The three companies are forming a company to be called "9 Telecom", in which Bouygues will have a 40.8 per cent stake, Telecom Italia 39.2 per cent and Veba Telecom the remaining 20 per cent.

The link-up, announced just three weeks before Europe's telecoms markets are thrown open to competition, will pit 9 Telecom against former state monopoly France Telecom and Cegetel in a battle for the French market. The name derives from the prefix '9' that customers will use under Europe's equal access regulations to connect to the operator's network. Veba said that the joint venture would offer services to private customers as well as to small and medium-sized businesses.

Veba, already has a joint venture, o.tel.o, in Germany with another large industry group, RWE.

Cable and Wireless, the UK-based telecoms group, has a 35 per cent stake in Bouygues Telecom. It recently said it intended to dispose of stakes in companies where it has neither control nor influence. 9 Telecom will face competition not only from France Telecom but from Cegetel in which Générale des Eaux and British Telecommunications have stakes.

Analysts said yesterday that it might prove difficult to win market share from France Telecom, now regarded, after an enormous modernisation, as one of the world's leading telecoms groups. Cegetel has already complained that France Telecom has hindered its development by refusing to provide adequate facilities for testing the interconnection of their respective networks.

One analyst said the German and Italian operators added much needed "firepower" to Bouygues' telecoms operations.

Bolloré buys stake, Page 20

Scotia chief executive quits to launch research company

By Clive Cookson, Science Editor

One of the longest serving and most colourful chief executives in the biotechnology industry, David Horrobin, is to step down.

Scotia Holdings, the company he founded in Canada in 1979 and brought to the UK in the early 1980s, announced yesterday that Dr Horrobin was setting up a business producing schizophrenia and asthma treatments, based on Scotia's technology.

He will become a non-executive director of Scotia, which was formed to develop drugs from evening primrose oil and now has a diverse range of products on the market and in its research pipeline.

Analysts were surprised by the timing of Dr Horrobin's departure and the management shake-up that accompanied it.

Sherri Clarkson – Dr Horrobin's wife and co-founder of Scotia – will leave her post as manager of the drug discovery division next June.

The new chief executive is Robert Dow, who joined the company as medical and development director in September from Roche, the leading Swiss pharmaceutical group.

Dr Dow is expected to accelerate the transformation of Scotia from a highly individualistic company, in the mould of its founder, into a more conventional pharmaceutical organisation.

Dr Horrobin, 58, is a brilliant and iconoclastic medical researcher who has been driven for more than 20 years by the conviction that lipids – fatty molecules that have largely been ignored by the industry – play a vital role in human health.

Mainstream scientists have moved closer to his view. Scotia sold £10m ($16.7m) of lipid-based products in the first half of 1997.

He denies suggestions that shareholder pressure pushed him out: "I wanted to start again, spending most of my time on research and development rather than administration."

Barry Riley

Triggers for a shake-up in UK pension funds

With two of the Big Four managers of UK pension funds involved in megamergers, and rumours swirling around the others, many of their clients are becoming unsettled. These developments could lead to a shake-up in the UK's increasingly top-heavy £600bn ($1,000bn) occupational pension-fund sector.

Year after year, so-called "balanced" funds have been accumulating in the hands of Mercury Asset Management, PDFM, Schroder and Gartmore. Of these, the first two are being taken over, Schroder is London's last unpicked investment-banking plum and Gartmore is an arm of the beleaguered NatWest Bank.

The four now account for over £200bn of segregated funds, probably more than half the total available market. Their closest rival is Barclays Global Investors, the index-tracking specialist.

Soothing words have been uttered about the takeovers. After the £3.1bn takeover by Merrill Lynch, MAM will retain much management independence. As for PDFM, which is embroiled in the UBS-SBC carve-up, it was said on Monday that integration with the parent Brinson would be approached "very carefully".

Already, all the Big Four managers have hit performance barriers and they are being forced down one of three paths. Mercury has opted for a wide dispersion of individual fund performance, PDFM and Gartmore have taken big bets, which have misfired badly, and Schroders has chosen to reduce risks, at the cost of humdrum results.

Whatever the individual differences, the Big Four retain a herd instinct which has led them, and many smaller emulators, into serious performance trouble in the admittedly tricky conditions of 1997. In overseas equities, according to the measurement company Caps, after nine months, the median UK pension fund was underperforming the World ex UK Index total return by 730 basis points. In UK equities, underperformance was a smaller, but still appalling, 180 basis points.

> The Big Four retain a herd instinct which has led them, and many smaller emulators, into serious trouble

Many managers have been hoping a stock-market crash would bail them out, but it has not happened except, perversely, in south east Asia where they have been seriously overweight. Some of the performance gap may have been clawed back in the current quarter, at least in the UK. But the marketing men from index-tracking funds cannot believe their good fortune.

Many more specialist managers – especially from US groups like J.P. Morgan and Fidelity – are sensing an opportunity. And medium-sized domestic contenders like Baillie Gifford are pointing out the flaw when clients expect significant outperformance from giant groups with dominant market shares.

So far, PDFM has lost few mandates, despite dire performance in the past 18 months, because it is seen as having a consistent long-term style. Clients' loyalty would be unlikely to survive a clumsy "Brinsonisation" of PDFM, however.

Most pension trustee boards are reviewing their long-term investment strategies in the context of the Pensions Act (which has introduced the Minimum Funding Requirement) and the increasing maturity of many defined-benefit schemes. More and more schemes are moving to a defined-contribution structure, requiring tighter control of members' investment risks.

A possible scenario is that the typical defined-benefit (or final salary-linked) scheme will allocate 20 or 25 per cent of assets to bonds (currently 15 per cent). Meanwhile indexed equities will rise from under 20 per cent of UK equity portfolios to 30 or even 40 per cent. That will put a double squeeze on equity managers.

No-one should underestimate the skills of the big managers. They are perfectly capable of adapting to market shifts. MAM has responded with particular vigour to the DC challenge. But, in the next two or three years, the Big Four's top executives could be seriously distracted by the need to fight internal battles.

Hasbro to cut 2,500 jobs in shake-up

By Richard Tomkins in New York

Hasbro, the US toy company that narrowly escaped the clutches of its bigger rival Mattel last year, yesterday announced plans for swingeing job cuts in an effort to boost shareholder returns.

It said it would close or consolidate factories, streamline marketing and sales, and axe 2,500 jobs, equivalent to 20 per cent of its worldwide workforce.

The cuts would result in a one-time pre-tax charge of $140m to fourth-quarter profits, Hasbro said. But they were expected to produce total cost savings of $350m over the next five years, of which at least $40m should be realised next year.

"We are convinced that these moves will help Hasbro enter the next millennium stronger and more focused than at any time in our history," said Alan Hassenfeld, chairman and chief executive.

Hasbro, based in Pawtucket, Rhode Island, makes some of the world's best-known toys and games, including Monopoly and Trivial Pursuit. Its brand names include Parker Brothers, Playskool, Kenner, Tonka and Milton Bradley.

In January last year Mattel, maker of the Barbie doll, launched a $5.2bn hostile bid for Hasbro, only to call it off after Hasbro stirred up anti-trust concerns.

Mattel had offered to buy Hasbro's shares at a premium of 73 per cent to the market price, so the collapse of the bid left many shareholders feeling sour. As a result, Hasbro has come under pressure to increase shareholder returns by improving its performance.

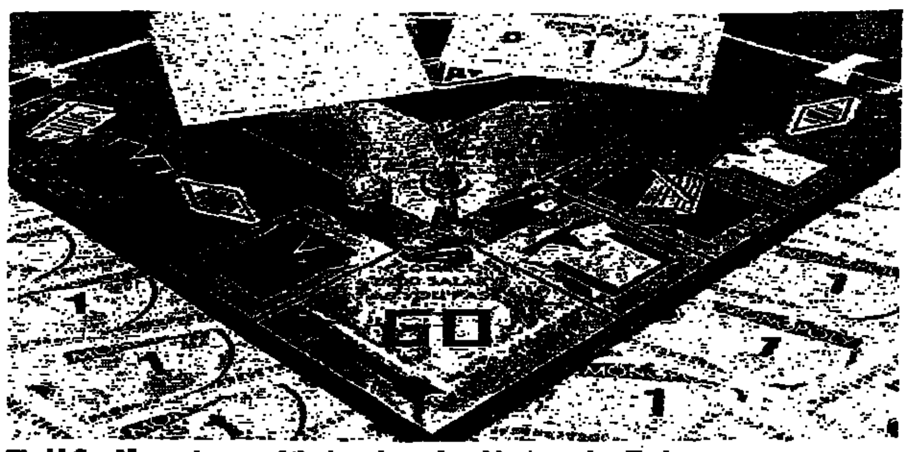
Yesterday, Hasbro said the cuts in manufacturing operations would include the closure of its games factory in New Zealand, together with previously announced closures of its Waddington plant in the UK and a plant in El Paso, Texas.

On the marketing front, the company said it would streamline several business units around the world, consolidate some sales and marketing activities, and give up certain unprofitable regional product lines.

It also announced that its board had approved the continuation of a share buy-back programme, authorising the repurchase of another $500m worth of shares over the next two to three years.

"As we strive to become a leader in the global children's and family leisure time and entertainment industry, we must continue to sharpen our focus on the brands and markets where we have the greatest profit potential," Mr Hassenfeld said.

In early afternoon trading, Hasbro's shares were up $15/16, or 3 per cent, at $30 11/16.



World Cup Monopoly: one of the brands produced by toymaker Hasbro PA

Go-ahead for news merger

By William Lewis in New York and John Ridding in Hong Kong

Dow Jones and NBC, owned by General Electric, yesterday confirmed the merger of their European and Asian business news channels, a licensing agreement in the US and a number of internet-based initiatives involving Microsoft.

The deal comes amid speculation of broader co-operation between Dow Jones and General Electric, and as Dow Jones continues to seek a buyer for Dow Jones Markets, its financial information service which used to be known as Telerate.

Dow Jones and NBC both said they would incur charges to 1997 fourth-quarter earnings as part of the restructuring. They said the agreements will "substantially reduce NBC's and Dow Jones' shares of the operating losses at these operations".

In Asia, the merger of ABN and CNBC Asia, the region's two main business television networks, will result in the closure of CNBC's Hong Kong production centre with about 150 job cuts.

The new service, which will be called CNBC and is due to be launched in February, is expected to reach nearly 9m households throughout Asia on a full-time basis and more than 30m part-time. It will be a 50-50 joint venture between NBC, the parent of CNBC, and Dow Jones, owner of ABN.

In Europe, European Business News and CNBC are also to merge in a 50-50 joint venture to form the newly branded CNBC, a service of NBC and Dow Jones.

In the US, Dow Jones has entered into a licensing agreement with CNBC, through which CNBC will have worldwide rights and access for television to all Dow Jones editorial material and resources.

In addition, the MSNBC internet site jointly owned by NBC and Microsoft is to include active participation by CNBC and the Wall Street Journal interactive edition, owned by Dow Jones.

Bell Atlantic quits Infostrada

By Paul Betts in Milan

Bell Atlantic, the US telecommunications group, yesterday sold back to Olivetti its 33 per cent stake in Infostrada, the Italian company's fixed-line subsidiary, for $43m.

However, at the same time it strengthened its commitment to Olivetti's fast growing cellular telephone operations, which are centred around Omnitel.

The move by Bell Atlantic reflects the latest stage in the complex reorganisation and restructuring of the Italian telecoms, office equipment and information technology group.

Olivetti negotiated in September a strategic partnership with Mannesmann, of Germany, which agreed to take a 49.9 per cent stake for L2,350bn ($1.34bn) in its telecoms activities, in two separate tranches. Mannesmann is due to acquire a 25 per cent stake for L1,100bn by December 15, with the remaining 24.9 per cent holding, valued at L1,250bn, to be bought by March 2000.

While the Mannesmann deal was widely seen as a rescue for the troubled Italian company, it also raised questions about Olivetti's traditional links with Bell Atlantic in the telecoms business.

Even before the Mannesmann agreement, Bell Atlantic appeared to be reconsidering its position in Infostrada. The US company increasingly considered that the fixed-line venture no longer fitted with its European investment strategy.

Following yesterday's agreement, Infostrada will now be fully owned by a new joint venture between Olivetti and Mannesmann.

However, Bell Atlantic confirmed it would strengthen its commitment to the Omnitel cellular telephone business, alongside Olivetti and Mannesmann.

Under yesterday's deal, Bell Atlantic will have additional board representation in both Omnitel Pronto Italia and Omnitel Sistemi Radiocellulari Italiani, the company which owns 70 per cent of Omnitel Pronto Italia.

Omnitel has continued to show rapid growth and announced last week it had reached 2m subscribers in its first two years of service.

Olivetti, which is expected to launch a L670bn capital increase before the year-end, is also attempting to finalise a merger of its Olsy information technology systems and services unit with Wang Laboratories of the US.

The Italian company hopes to complete a deal this month under which Olivetti would retain a 20 per cent stake in the combined Olsy-Wang businesses.

The Italian company is also continuing efforts to secure partnerships for its Lexikon office equipment subsidiary.

Heinz ahead 6% in second term

By Richard Tomkins

H. J. Heinz, the US food company that last week announced the retirement of Tony O'Reilly as chief executive, yesterday reported a 6 per cent increase in net profits to $188.9m for its second quarter to October 29.

It said that excluding a $19.5m pre-tax charge for the cost of its Project Millennia restructuring programme, profits would have risen 13 per cent to $201.3m. Earnings per share, excluding restructuring costs, rose 15 per cent to 54 cents, in line with analysts' forecasts and living up to the company's target of double-digit increases.

Revenues tumbled 5 per cent to $2.3bn, but Heinz said they would have risen 2 per cent without the effect of divestitures.

The company said sales volumes fell 0.4 per cent and unfavourable shifts in exchange rates reduced revenues by 2.6 per cent, but these factors were offset by a 3.9 per cent rise in sales from acquisitions and a 1 per cent rise from price increases.

William Johnson, the president and chief operating officer due to take over from Mr O'Reilly next April, said volume growth should improve significantly in the third quarter as new marketing programmes took effect in the company's core categories.

AMERICAS NEWS DIGEST

Insignia offer rejected by REI

Richard Ellis International, the holding company for the overseas businesses of the UK-based chartered surveying firm, yesterday rejected an offer to be acquired by Insignia, the US property advisory firm.

REI said it had agreed to merge instead with a competitor of Insignia, despite a deal under which Insignia is buying the Richard Ellis UK operations.

CB Commercial Real Estate Services Group, a property services company which is listed on the New York Stock Exchange, said yesterday that REI had agreed a merger with it, and it hoped the UK arm of Richard Ellis, Richard Ellis Group, would change its mind about its earlier deal with Insignia.

The announcement yesterday is the latest twist in the affairs of Richard Ellis, a long-established name in UK real estate consultancy – a business which is struggling to expand overseas in line with the needs of its clientele.

Richard Ellis Group owns about 16 per cent of the equity of REI. REI has the right to use the Richard Ellis brand name only outside the UK.

Norma Cohen, Property Correspondent

■ SEMICONDUCTORS

National Semi beats forecasts

National Semiconductor said it earned 46 cents a share in the second quarter before special charges and the operations of a recent acquisition, beating analysts' expectations of 43 cents share.

On that basis, the company earned $72.5m, or 46 cents a share, on $640m in sales for the second quarter ended November 23. But National Semiconductor also took a net $25.8m in charges to pay for the acquisition of Cyrix, the microprocessor manufacturer, for which it paid about $492m in November.

In addition, Cyrix lost about $17.8m on sales of $79.6m in the second quarter. This sliced off 11 cents a share from National Semiconductor's consolidated net income, in addition to the merger-related expenses of 15 cents a share. The company's decision to issue 16.4m shares shaved a further 3 cents a share from its earnings.

As a result, National Semiconductor's consolidated operations recorded a $28.9m net profit, or 17 cents a share diluted, on $719.9m in revenues in the quarter. This compared with a $26.1m net profit, or 16 cents a share, on sales of $686.6m in 1996.

The shares fell $2⅛ to $28⅞ in early New York trading.

Reuters, Santa Clara, California

■ ASSET MANAGEMENT

Legg Mason in Brandywine talks

Legg Mason, the Baltimore-based brokerage group, is in talks to buy Brandywine Asset Management, a privately-held fund management group with about $7bn of assets under management. Legg Mason's asset management companies currently manage more than $50bn.

Raymond Mason, Legg Mason's chairman and Anthony Hitschler, founder and president of Brandywine asset management said that the terms of the possible acquisition have not been finalised. *Tracy Corrigan, New York*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Indian cement groups hit by slowdown

By Kunal Bose in Calcutta

Profits at India's leading cement groups were sharply down in the first half of the year, with some companies falling into loss.

The industry was hit by a slowdown in construction activity, falls in product prices, commissioning of new capacity and rises in raw material costs.

Net profits at Madras Cements fell 53 per cent to Rs217m ($5.57m), despite a 20.5 per cent rise in sales to Rs2.45bn. Expenditure jumped 31.1 per cent to Rs1.76bn. Operating profits were flat at Rs800m, against Rs799m last time, while interest costs rose 124 per cent to Rs378m, mainly because of the commissioning of a new cement factory at Alathiyur.

Mysore Cements, a flagship company of the SK Birla group, was hit as cement prices fell an average of 8 per cent in the north Indian market. Losses deepened to Rs189m, even though expenditure fell 3.7 per cent to Rs1.596bn. Sales declined from Rs1.74bn to Rs1.68bn.

However, a few companies which sell all their cement in southern India – where supply falls short of demand – raised profits in the six months to September 30.

India Cements, the largest producer of cement in the south of the country, beat the industry trend by posting higher sales and profits. Sales rose nearly 14 per cent to Rs4.75bn and pre-tax profits advanced 20.5 per cent to Rs1.06bn. Net profits improved 6 per cent to Rs471m after substantially higher provisions for interest and depreciation. Earnings per share rose to Rs7.32, from Rs6.90.

The group, which commissioned a new factory with capacity of 900,000 tonnes in June, acquired the entire share capital of Visaka Cement, which is building a 900,000 tonne capacity plant in Andhra Pradesh. It is also acquiring a 400,000 tonne capacity factory from the government-owned Cement Corporation of India at for Rs1.98bn. By the middle of next year, the group will have total capacity of 4.8m tonnes.

Navin Suchanti, managing director of Pressman Finance, warned the second-half results of most cement groups would be equally disappointing.

"I don't see the demand for cement improving till such time work on a large number of projects awaiting financial closure starts. But nothing much is going to happen until the parliamentary elections are over and there is a new government in New Delhi by the middle of March."

Mazda's Miller on a mission to inspire

Lifting staff morale is a top priority for the new president of the Japanese carmaker

Even by the standards of Japan's courteous business community, James Miller, the new president of Mazda, comes across as unusually soft-hearted.

Mr Miller, who last month became the second foreigner to head a leading Japanese manufacturer, likes to talk about the importance of the Mazda family.

Mazda's 25,000 employees, he says, are "what make our company what it is today and what it can be in the future". One of his main priorities in his new role will be to focus on "people issues", he says.

For the 51-year old American, boosting morale among his Japanese staff is a vital task. Although it is one of Japan's leading vehicle makers, Mazda is a company still struggling for survival.

Moreover, even after 18 months there is still uncertainty, if not resentment, at Mazda about being under the control of Ford and having a "foreign" leader.

When Ford increased its stake in Mazda to 33.3 per cent last year, the Japanese press saw the fact that Mazda had to be rescued by a foreign company as a national disgrace.

Mazda has climbed away from its low point with the success of innovative products, such as the Demio, the popular small sports utility vehicle, and a stringent debt reduction programme launched by Henry Wallace, Mr Miller's predecessor.

However, there is still some way to go before the company begins to regain some of its former glory.

The question for Mazda is whether it can maintain the momentum created by the Demio. The bottom line, as Mr Miller readily admits, is that it needs to sell more cars.

"We need to grow. We're a company that has relatively small market share around the world, and one of our objectives has been and continues to be to have a bigger presence in the auto industry around the world," he says.

Mr Miller intends to see that Mazda's growth is also profitable. Although this year Mazda posted its first rise in first-half profits in seven years, it is still not paying a dividend.

The continued high level of debt is another issue. Under the guidance of the team from Ford, debt has been reduced from about $5bn in 1994 to $3bn.

"The company has made great progress [in reducing debt]. But there's still an awful lot of work to be done," Mr Miller concedes.

Mr Miller believes that, with the stringent restructuring measures that have been adopted, its growing relationship with Ford and several new products, Mazda will be able to grow profitably in world markets.

"I feel quite confident in the cycle plan that we have in place," he says. The new Capella sedan has already helped profits, while expectations are high for the Capella station wagon.

James Miller: bottom line is Mazda needs to sell more cars AP

As a result of product launches, he expects Mazda's state-of-the-art Hofu plant in southern Japan to improve capacity utilisation from a dismal 50 per cent to 70 per cent by the second half of this year.

Mazda is also seeking to improve its image with a new brand mark it has launched around the world this year and with an advertising campaign "aimed at raising awareness of the commitment we have towards meeting customer satisfaction," Mr Miller says.

But ultimately, in Mr Miller's view, it is the members of the Mazda family – employees, dealers and suppliers – who hold the key to putting the shine back into Mazda's star.

That is why he aims to be a leader who can motivate his staff. "I've always been amazed over the years watching people accomplish things they thought they couldn't accomplish. Sometimes the ability of people to achieve things is limited by the expectations of their boss."

Mazda staff can be sure that this will not be their fate. Mr Miller is setting to work to "create an environment in which people are challenged, motivated and stretched" so that they are allowed to achieve more than they ever thought they could, he says.

Judging from the reputation he has gained within Mazda already, he probably has a good chance of succeeding. "He is like Buddha," says one employee.

Mr Miller's emphasis on the importance of people echoes the "touchy-feely" approach that can still win hearts in Japan.

His assurance that "we don't cut people in this country" just because times are tough, is the kind of talk that will not only arouse affection and loyalty but also motivate staff to give their best to the company.

Mazda employees "are extraordinarily dedicated, competent and loyal", as Mr Miller observes. "The almost blind loyalty to the company [is] quite extraordinary," he says.

If such loyalty is not enough to turn Mazda around, Mr Miller also has a reputation as a formidable salesman. He is described as persistent and aggressive, in a way that inspires admiration rather than enmity.

Those qualities enabled Mr Miller to pull South African Motor Corporation – where he was group managing director before joining Mazda – from fifth to second place in the market in just a few years.

Mazda employees are hoping that Mr Miller can work the same magic at Mazda. "He is like our saviour," says one employee who knows of his past achievements.

As for Mr Miller, he has more than usual faith in what Mazda people themselves can accomplish. "I don't think there's anything that they're not capable of," he says.

If high expectations are what it takes to produce outstanding results, as Mr Miller points out, there is much to look forward to from the new team at Mazda.

Michiyo Nakamoto

ASIA-PACIFIC NEWS DIGEST

Hyundai unit put on CreditWatch

Standard & Poor's, the credit rating agency, has placed the long-term credit rating of Hyundai Semiconductor America on negative CreditWatch because of concerns that the credit quality of its South Korean parent could deteriorate.

S&P said Hyundai Electronic Industries, the parent company, faced a possible credit deterioration because of the financial turmoil in South Korea. It said Hyundai was expected to provide support to the Halla Group, the country's 12th-largest business group which sought court protection to avert bankruptcy at the weekend.

"Current exposure as well as anticipated buy-outs or equity participation in Halla Group companies will increase the burden on Hyundai group companies," it added.

S&P also cited the problems for Hyundai in the increasingly competitive global chip market and "the company's already high debt usage".

Meanwhile Hyundai said it would buy back 3 per cent of its stock, taking its holding to 4.8 per cent, in an attempt to stabilise its shares. *AFX-Asia, Seoul*

■ SOUTH KOREA

Ssangyong to shed managers

Ssangyong, South Korea's sixth-largest conglomerate, said it would cut the number of its management executives by 30 per cent as well as cutting wages by the same amount.

It will also reduce workers' wages by 15 per cent and other costs such as travel and welfare benefits, saving a total of Won200bn ($149m) a year.

Ssangyong said the group planned investments of Won383.5bn won in 1998, compared with Won1,250bn this year, with the funds raised internally.

The credit rating of Daewoo, South Korea's fourth-largest conglomerate, has been placed on CreditWatch with negative implications by Standard & Poor's after Daewoo Motors, its 37 per cent owned associate, announced its intention to buy the majority interest in Ssangyong Motor.

Daewoo Motor is expected to assume a large portion of Ssangyong Motor's bank debt. *AFX-Asia, Seoul*

■ LIFE ASSURANCE

National Mutual advances

National Mutual, the Australian life assurer, reported net profits for the year to September of A$300.56m (US$201.7m), compared with A$210.88m the year before but warned that the slump in Asia's investment markets could slice up to A$40m from its profits this year.

"Since September 30 there has been a material decline in the value of the Asian investment markets, which has been taken into account in the appraisal value of National Mutual Asia," it said.

The past year had seen great progress in the region, according to Geoff Tomlinson, chief executive. "In Asia particularly, we have made fantastic progress this year and we are confident that National Mutual ... is well placed as a contender for a life insurance licence in China."

He added that no agreement had yet been reached between National Mutual and Lend Lease over the possible merger of their financial services businesses. *AFX-Asia, Melbourne*

Small investors get 73.3% of Spanish steel group's offering as shares priced in middle of range

Retail tranche of Aceralia IPO raised

By Tom Burns in Madrid

Strong demand for shares in Aceralia, the Spanish steel group, has encouraged co-ordinators of the initial public offering to raise the domestic retail tranche from 64.9 per cent of the total to 73.3 per cent – a record allocation to small investors for a large market disposal in Spain.

The sale of 47.4 per cent of Aceralia by Sepi, the state holding company, realised about Pta123.5bn ($817.6m). It completes a privatisation process that started in July with the sale of 35 per cent of the steel group, then known as CSI Corporación Siderúrgica, to Arbed of Luxembourg for Pta129bn.

Despite the demand, the co-ordinators – Banco Bilbao Vizcaya, Banco Central Hispano and SBC Warburg Dillon Read – priced the issue in the middle of the range, at Pta2,080 a share, to ensure a stable market when shares start trading today on Madrid's Bolsa.

The domestic retail tranche was 12 times oversubscribed, indicating that the appetite for equity investments among small domestic savers has not been damped by recent upheaval in world equity markets.

The retail allocation in the Aceralia offering beat the previous record of 67 per cent by the Telefónica offering in February, which was repeated in the partial privatisation Endesa, the power group, in October.

Unlike Telefónica and Endesa, Aceralia is not a household name in Spain. The response was all the more remarkable because, in a departure from previous disposals of state-owned equity, retail investors were not offered a discount on the issue price.

The only inducement to small savers was an undertaking by the steel group to provide a rebate if the stock price failed to rise by 5 per cent within six months.

The market sale of Aceralia completes a record year for privatisations in Spain, which has earned some Pta1,680bn in disposal receipts and sets the stage for further sell-offs next year.

The privatisation of Argentaria, the banking group which is 25 per cent state-owned, is provisionally scheduled for February; the sale of a further 20 per cent of Endesa is expected in May; and the disposal of the government's 52 per cent stake in Tabacalera, the tobacco group, is due in the second half of next year.

IVO mops up Gullspang

By Greg McIvor in Stockholm

Imatran Voima (IVO), the Finnish state power utility, yesterday stepped up the consolidation of the Nordic region's electricity industry by moving to complete a takeover of Gullspang Kraft, Sweden's fourth largest generator, begun last year.

IVO said it had bought a 20.3 per cent voting stake in Gullspang for SKr1.6bn ($204m) from a Swedish municipality, lifting its holding in the regionally based supplier above 90 per cent of the equity and votes.

The deal brought IVO's cash investment in Gullspang shares to SKr8bn. It said it would seek a compulsory purchase order for the outstanding stock.

Gullspang has been the bridgehead for IVO's move into Sweden beyond its domestic market, where it is facing growing competition from Vattenfall, the Swedish state energy utility.

It entered Gullspang by buying a 43.6 per cent stake in March last year, shortly after the Nordic power market was deregulated.

Earlier this year it took over Vattenfall's 16.4 per cent stake in Gullspang in return for generating capacity in Finland. Last month it bought a 14.4 per cent stake held by Graninge, another Swedish generator, for SKr1.56bn plus some Finnish generating capacity.

Heikki Marttinen, IVO chief executive, said acquiring full control of Gullspang would enable IVO to adapt it to its own strategy. Gullspang will be delisted and become an IVO subsidiary.

IVO, which has a strategic alliance with Stockholm Energi, Sweden's third largest supplier, is committed to challenging Vattenfall on the Swedish market.

Half of its 710,000 customers are in Sweden and the company emphasised yesterday that it saw Scandinavia as its home market.

A company official indicated that IVO wanted to expand further in Sweden.

Greece prepares for bourse sell-off

By Kerin Hope in Athens

Bookbuilding starts today for the private placement of up to 49 per cent of the Athens Stock Exchange under the government's programme of selling minority stakes in profitable state corporations.

The bourse is 100 per cent state-owned and the government appoints its chairman and several directors. This has drawn criticism from bourse officials that government interference has slowed modernisation.

Professor Manolis Xanthakis, exchange chairman, said partial privatisation would "bring more flexibility in running day-to-day operations and allow much greater freedom in decision making".

The government hopes to raise about Dr30bn ($107m) from the placement. Two Greek investment banks – Alpha Finance and state-controlled Eteva – are advisers and bookbuilders.

Banks, mutual fund managers and insurers are likely to be keen bidders among 600 Greek companies and institutions eligible to buy stakes of up to 5 per cent.

Several brokerage houses have complained that at an indicated price range of Dr11,500-Dr13,000, the shares are too expensive.

Overseas foray for OTE

By Kerin Hope

OTE, Greece's public telecommunications operator, has completed its first acquisition abroad by agreeing to pay $142.5m for a 90 per cent stake in ArmenTel, the Armenian state operator. The other 10 per cent remains under state control.

The deal, which is subject to approval of a new telecoms law by the Armenian parliament, provides for Leventis, the Cypriot-owned soft drinks group which holds the Coca-Cola franchise in Armenia, to take up to 10 per cent of OTE's holding.

The European Bank for Reconstruction and Development is expected to take a similar stake and plans to lend ArmenTel $50m to upgrade its network.

BZW and Ionian Finance acted as advisers to OTE, while Merrill Lynch advised the Armenian government.

The new Armenian telecoms law, due to be approved in January, will permit increases in tariffs and give ArmenTel a 15-year monopoly of fixed-line telephony, OTE said.

OTE increased its bid from $105m, which it had offered in an earlier round of bidding against Metromedia International, of the US.

The Greek group said the higher price was justified because the Armenian government had agreed to "tax reductions from 1998 and a tariff rebalancing, which significantly increased the value of ArmenTel". Operating revenues for 1998 are projected at $60m.

OTE has agreed to pay $55.9m in cash to ArmenTel when the contract is signed, and $17.2m to Trans-World Telecom, a US company which is selling its stake in ArmenTel as part of the deal. The remaining $69m will be paid in instalments.

The deal includes a commitment to invest $300m in upgrading Armenia's fixed-line network over the next 10 years.

Dominique Strauss-Kahn: training for civil servants *Reuters*

France to clarify role of chairmen

By Andrew Jack in Paris

The French government is to clarify the responsibilities of chairmen and civil servants on the boards of state-controlled enterprises, following a series of embarrassing bail-outs.

Dominique Strauss-Kahn, economics, finance and industry minister, said yesterday he would send letters detailing the "mission and strategic orientation" of heads of nationalised companies when they were appointed.

He also promised to provide training for civil servants who sit on boards as representatives of the state.

The reforms come amid growing public concern over the losses at a number of nationalised companies, including Crédit Lyonnais, the bank, and insurer GAN.

The government has released aggregate results of state-controlled enterprises in France for 1996, which show a deficit of FFr11.2bn ($1.87bn). Mr Strauss-Kahn tried to present the figures in a positive light, arguing that in the last decade the accumulated deficit was FFr1.3bn, and the trend was towards break-even.

The total number of enterprises in the analysis has fallen significantly in recent years following waves of privatisation under the centre-right governments of the late-1980s and mid-1990s.

Mr Strauss-Kahn stressed that much of the deficit – which peaked at FFr31.6bn in 1993 – was the result of problems at Crédit Lyonnais and GAN. The privatisation of GAN is to be launched "in the next few days" and that of Crédit Lyonnais' by 2000.

The government's report said that among the financial groups it still controls, Société Marseillaise de Crédit remains "very fragile".

EUROPEAN NEWS DIGEST

Swedish bus buy for CGEA

CGEA Transport, the French bus and train operator, yesterday announced a big expansion in Scandinavia with the SKr956m ($122m) agreed takeover of Linjebuss, Sweden's second largest bus company. CGEA, a unit of Compagnie Générale des Eaux, said the deal would underpin Linjebuss's expansion in northern Europe, serving mainly public transport networks in Sweden, Finland and Denmark. The move follows CGEA's own expansion in Germany, Portugal, the Netherlands and the UK, where it operates two rail franchises – Connex SouthCentral and Connex SouthEastern.

CGEA earlier this year acquired 33.3 per cent of Linjebuss. Yesterday the French group said its SKr112-a-share cash offer for the outstanding shares had been accepted by Nordstjernan, the institutional investor owning 44.2 per cent of the group. The Swedish company, which last year made pre-tax profits of SKr98m on sales of SKr2.8bn, predicted the takeover would lead to economies of scale. But it declined to specify the extent of any job losses among its 4,700 employees. Shares in Linjebuss, advised by Alfred Berg, rose SKr19 to SKr111.50. CGEA was advised by Handelsbanken Markets. *Tim Burt, Stockholm*

■ BOUYGUES

Groupe Bolloré buys 8.7% stake

Groupe Bolloré, the holding company controlled by Vincent Bolloré, the French financier, yesterday paid FFr1.2bn ($200m) for 8.7 per cent of Bouygues, the utilities group. The move makes it the largest investor after the founding family shareholders.

In a brief statement, Bouygues confirmed the purchase – which gives Bolloré 6.8 per cent of the voting rights – and said it would nominate Mr Bolloré to the board at the next annual general meeting. The purchase helps to protect Bouygues from a hostile takeover, even though advisers to Bolloré stressed last night that there was no formal agreement or shareholders' pact.

The family shareholders control 18 per cent of the shares and 27 per cent of voting rights, and employees a further 7 per cent of the shares and 9 per cent of the votes. Bolloré, which has been buying shares in Bouygues over the past few months, stressed that its investment was friendly and for the long term. It expressed its support for the existing management. *Andrew Jack, Paris*

■ CREDIT CARDS

Barclaycard to launch in France

Barclaycard of the UK hopes to encourage a shift in France's financial culture next year by introducing the country's first true credit card. Bob Potts, Barclaycard chief executive, said an expansion into France could be the beginning of a push into southern Europe. "Spain and Italy are interesting too," he said, describing France as "a testbed for further European expansion".

France has about 53m plastic cards, but most are debit cards, with some tied to particular shops. None offer the flexible "revolving" credit UK and US cards provide. Test marketing in France using direct mail will begin at the end of the first quarter, with a country-wide launch towards the end of the year. *James Mackintosh*

■ BANKING

Banks sell 1.6% interest in ING

Crédit Communal de Belgique and Banque Internationale à Luxembourg have sold just under 14.8m shares in ING Group, the Dutch financial services group which is merging with Banque Bruxelles Lambert of Belgium.

The $640m deal, which represented the ING shares the two banks were due in exchange for their BBL shares, was executed in a block trade by Morgan Stanley Dean Witter, which bought the shares and sold them on to institutional investors.

A source close to the deal, which was executed on Monday, said CCB and BIL had decided to take advantage of the high liquidity in banking shares that day as a result of the merger of Swiss Bank Corporation and Union Bank of Switzerland. The shares sold represented a stake of about 1.6 per cent in ING. As part of the placement, Morgan Stanley has underwritten the option element on a $150m convertible bond guaranteed by CCB which is exchangeable into ING shares. *Vincent Boland*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 10.12.97 / Final Prices for Trading on 12.11.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TB use of system price £/MWh
0030	18.94	20.31	20.57	1.38
0100	24.35	18.86	19.12	1.38
0130	36.36	21.58	21.83	1.38
0200	36.38	21.58	21.83	1.38
0230	24.35	20.81	21.07	1.38
0300	18.94	18.86	19.12	1.38
0330	18.94	18.86	19.12	1.38
0400	18.94	18.86	19.12	1.38
0430	18.94	18.86	19.12	1.38
0500	10.53	10.47	10.47	0.00
0530	10.50	10.46	10.46	0.00
0600	18.82	10.47	10.47	0.00
0630	19.86	25.15	25.41	1.38
0700	30.24	25.15	25.41	1.38
0730	30.50	27.50	27.76	1.38
0800	32.81	28.37	28.62	1.38
0830	30.81	28.37	28.63	1.38
0900	32.92	32.98	33.24	1.38
0930	50.25	32.99	33.26	1.38
1000	50.25	33.00	33.26	1.38
1030	32.91	35.93	36.20	1.38
1100	32.91	35.93	36.20	1.38
1130	32.91	35.83	36.16	1.38
1200	32.81	28.27	28.54	1.38
1230	50.25	28.27	28.53	1.38
1300	60.25	28.27	28.53	1.38
1330	32.91	28.26	28.53	1.38
1400	32.91	28.27	28.53	1.38
1430	32.91	28.27	28.54	1.38
1500	41.58	28.39	28.65	1.38
1530	41.62	28.32	28.61	1.38
1600	48.53	37.51	37.93	1.38
1630	64.29	54.84	57.37	1.38
1700	80.80	78.71	84.52	1.38
1730	122.74	116.65	125.54	1.38
1800	112.14	112.72	120.58	1.38
1830	99.08	64.72	68.65	1.38
1900	52.23	51.56	52.92	1.38
1930	47.24	41.82	42.61	1.38
2000	41.65	39.10	39.44	1.38
2030	30.62	37.14	37.41	1.38
2100	32.91	28.37	28.64	1.38
2130	30.60	28.35	28.62	1.38
2200	30.36	28.36	28.62	1.38
2230	26.93	27.50	27.76	1.38
2300	22.86	25.15	25.41	1.38
2330	18.82	18.63	18.89	1.38
2400	18.82	18.63	18.89	1.38

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the complexity of pool pricing [illegible]

COMPANIES AND FINANCE: SWISS BANK MERGER

UBS staff still in dark over job cuts

By Clay Harris in London and Tracy Corrigan in New York

Investment banking and stock-broking staff at Union Bank of Switzerland in London were still facing an uncertain future yesterday after the agreed merger with Swiss Bank Corporation. Most expected the worst.

It also became clear that survivors of more than 3,000 expected job losses will vacate UBS's City headquarters at 100 Liverpool Street, which the Swiss bank has occupied since the Broadgate complex opened in 1989 and now owns.

They will move into one of SBC's two London offices, including its recently refurbished neighbouring headquarters at One Finsbury Avenue.

On the jobs side, a few UBS staff have been told they will be retained by Warburg Dillon Read, the SBC subsidiary which will be the base for the investment banking arm of the new United Bank of Switzerland. "I don't think anyone has been told to go," an insider said. "Some have been told that they will be staying, but the bad news is yet to come."

Concern was particularly high among UBS's back-office personnel, who felt their low-profile jobs would be especially vulnerable in an SBC-led integration.

But the uncertainty extended to the top. No long-term role has yet been specified for David Robins, head of Europe and a member of the parent group's executive board, after he assists in the integration process.

The merged bank's investment banking arm will be headed by Johannes de Gier, Mr Robins' London-based SBC counterpart.

Mr Robins was formerly chief of staff to Mathis Cabiallavetta, UBS chief executive and chairman of the combined bank. He was reported yesterday to share his staff's view that the deal amounted to a takeover by SBC.

In the US, it is estimated that the merger will result in 1,500-2,000 job losses.

SBC's recently opened office in Stamford, Connecticut will become the base for most of the merged entity's trading operations in the US. Stamford is already the base for all SBC's foreign exchange and fixed-income trading and some of its equities business. Its trade finance operation will move there at the end of this week.

The Stamford building, which by the end of this week will house 2,200 staff, is already full, but the group is considering adding two new towers, in addition to the existing 12-storey office block. The trading floor can also be extended, an official said.

Corporate finance staff are expected to remain in Manhattan.

In addition to Stamford, SBC also employs 900 people in two mid-town Manhattan offices, while UBS has about 2,500 staff in New York.

Ebner comes out top in UBS stakes

Corporate predator has finally got his way regarding shareholder value at the Swiss bank

The shares of Union Bank of Switzerland and Swiss Bank Corporation continued to race ahead yesterday after the announcement of their proposed merger into the United Bank of Switzerland.

But the real winner has been Martin Ebner, 52, Switzerland's best-known corporate predator, whose long-term investment in UBS has re-established his reputation as one of the most astute stock pickers in Europe's fast-changing financial services industry.

A year ago, there were stories that the shadowy professional investors behind his SFr18bn ($12.4bn) investment empire were starting to fret at his failure to make money. In 1996, the shares of BK Vision, which had two-thirds of its money in UBS, fell while the Swiss stock market rose by 18 per cent – a fact that led Mr Ebner to insert the words *annus horribilis* on the front of BK Vision's 1996 annual report.

However, this year BK Vision's shares have more than doubled in value to SFr1,458, and Mr Ebner's personal stock has soared. He spotted the rapidly developing "restructuring story" in the European financial services industry early on, and has been prepared to back his judgment with bets that Switzerland's financial institutions would not escape unscathed.

Earlier this year, he built up a near 30 per cent stake in Winterthur, Switzerland's third biggest insurer, and on August 11 was rewarded with the announcement that it was to be acquired by Credit Suisse. Mr Ebner is believed to have made a SFr500m profit for his investors on this deal.

It has taken longer for his investment in UBS, once Switzerland's most powerful bank, to come right. He took a stake over five years ago and for the past three years has been involved in a series of complicated legal battles with UBS which he seemed to be losing. His case was that the UBS management was failing to run the bank for the benefit of shareholders. He argued that the board was too big for sensible decision-making and that shareholders would best be served by the resignation of Robert Studer, 59, the former chief executive, who had taken over as chairman in April 1996.

In the money: Martin Ebner is believed to have made a SFr500m profit for his investors on the deal Reuters

Mr Ebner can count himself pleased with SBC's merger with UBS, where he controls 25 per cent of the registered shares. Not only has the UBS registered share price risen by 86 per cent, to SFr441, but Mr Studer is bowing out and the size of the UBS board has been cut from 18 to a maximum of 12.

Meanwhile, Mathis Cabiallavetta, 53, the UBS chief executive who will replace Mr Studer as chairman, seems much more interested than his predecessor in listening to Mr Ebner's thoughts on how UBS should be run.

However, Mr Ebner still faces an important test. He now owns 7 per cent of the equity of Credit Suisse and about 3.7 per cent of the enlarged UBS. He has to decide which of the two banks will be his core long-term shareholding since he has made no secret that he now wants to invest in one big Swiss bank as a "strategic participation" over the long term. This is likely to include a request for a seat on the board.

William Hall

SBC insists Japan link-up will proceed

By Gillian Tett in Tokyo

The merger between Union Bank of Switzerland and Swiss Bank Corporation has raised concern in Japan over SBC's plans to merge its Japanese investment banking business with the securities affiliate of Japan's Long Term Credit Bank.

SBC insists the plan will go ahead. "Our commitment to the merger with LTCB is unchanged," said Luqman Arnold, of SBC. "Our alliance with LTCB remains an important element of [the new merged group] United Bank of Switzerland's global strategy."

Mr Arnold's statement came as a relief to LTCB. As one of the weaker of Japan's big banks, it could face an uncertain future if the alliance with SBC collapses. Although LTCB's share price fell last week amid fears the alliance was unravelling, it rose Y18 yesterday to close at Y231.

The joint venture between LTCB and SBC represents a test case for the country's financial sector, since it is the first of its kind to have been concluded in Japan. If it unravels, it could seriously dent confidence in "Big Bang" reforms of the financial markets due next year.

Nevertheless, all three groups face a severe managerial challenge. As an official at a rival western bank said: "Creating joint ventures with a Japanese bank is hard enough, given all the cultural problems. Doing it in the middle of another merger could be a recipe for chaos."

The original SBC-LTCB plans envisaged the two groups would establish three joint ventures next year, and complete a capital raising exercise and 1 per cent cross-shareholding.

Officials yesterday admitted the cross-shareholding had been delayed by recent market turmoil, though they insisted it would be implemented early next year. However, they still planned to start the investment banking and asset management joint ventures in the spring, followed by a private banking joint venture.

SBC officials insist that bringing UBS on board will boost the joint ventures. UBS has a large asset management business and the combined operations leave the new alliance the largest non-Japanese fund manager in Tokyo.

UBS also has a trust bank operation, which SBC lacks. It is also establishing a domestic mutual fund arm – another element absent at SBC.

But in some areas, such as investment banking, there will be a clear overlap between the three groups. Job cuts are inevitable, officials admit, though some hope they will be smaller than in other centres because of "Big Bang".

The real problem is timing. It remains unclear when the UBS and SBC offices will link up. Officials said it was expected to occur "as soon as possible" in the investment banking sector – or simultaneously with the LTCB merger.

Since UBS has a large amount of unused prime property, some suggest that all three groups will simply move into UBS's offices. Alternatively, the three separate groups may retain their own premises until the proposed LTCB-SBC site can be enlarged.

● LTCB (Schweiz) shareholders yesterday decided to liquidate the company at an extraordinary meeting, writes AP-Dow Jones from Zurich. The closure of the Swiss branch was a planned consequence of the agreement between the parent company and SBC to form a strategic alliance.

Fidelity Brokerage in restructuring

By Jane Martinson, Investment Correspondent

Giles Vardey is to step down as chief executive of Fidelity Brokerage Services after a strategic review found that the execution-only stockbroker should pull out of its institutional business.

Mr Vardey, a former director of the Stock Exchange, joined the company in June.

The company, which is owned by Fidelity, the world's largest independent fund manager, had suffered a difficult year culminating in the second largest fine ever awarded by the Securities and Futures Authority.

Paul Kafka, executive director of Fidelity Investments, said yesterday that Mr Vardey felt his job had been done.

Mr Vardey will remain as a director for the next month and an external adviser until April.

There are likely to be redundancies among the broker's 450 staff as a result of the retrenchment. There was speculation that some 40 jobs could be at risk, although Fidelity said yesterday that it was too early to comment, especially as efforts would be made to redeploy staff. Mr Kafka said: "Staff have been told that, as a result of the strategic review, a number of people will be affected. It is unclear yet how many."

Mr Kafka said that the brokerage firm had decided to focus on its "core" retail investors. The institutional side of the business had been "insignificant" in terms of staff and revenues, he said.

"It is an extremely competitive market and it has become clear, while conducting the review, that to succeed we had to focus our full resources on providing highest levels of services to a core customer group".

In the six months to May, Fidelity Brokerage Services was forced to close its business to new clients by the SFA after admitting to the regulator that its operations and customer services were "significantly out of control" last summer.

In May, the group was fined £200,000 ($334,000) by the SFA for a collapse in the level of customer service after the introduction of a new computer system.

A French blot on Tesco's copybook

By Peggy Hollinger

Tesco's news yesterday that it was selling Catteau, its underperforming French supermarket business, to Promodès, the hypermarket operator, for FFr2.5bn ($420m) should have been greeted with enthusiasm by the market.

Instead, the UK group has seen its shares drop 5 per cent in the last two days, as news of the sale began to leak into the market.

Selling Catteau has long been anticipated and desired by analysts and investors. It has been clear that the business did not have the critical mass it needed to compete against the discounters so prevalent in the north of France and the might of the big hypermarket operators, such as Promodès and Carrefour.

But, equally, the actual disposal has highlighted that even Tesco, arguably the UK's most successful supermarket group, can make mistakes. "It is a blot on their copybook," said one analyst.

Tesco had not moved forcefully enough into the French market in the first place, he said, and so missed the opportunity of participating in the rapid consolidation of the food retail industry in that country.

More worrying, however, was what the experience of Catteau might imply about the group's international ambitions, said other analysts. After yesterday's disposal, said Frank Davidson, at HSBC James Capel, "they can say nothing about the diversification strategy which offers any shred of comfort". Others agreed that much remained to be proven about its drive into Poland, Hungary, the Czech Republic and Slovakia, particularly given the growing interest from foreign retailers in the region.

Tesco said the price paid by Promodès recovered all its investment, barring transaction costs and currency effects. Tesco paid £168m for Catteau in 1993, and invested a further £100m in four years of ownership. Last year the business, which has 105 stores, made operating profits of £10.8m on sales of £578m.

JCI open to Lonrho approach

By Andrew Edgecliffe-Johnson

JCI, the South African mining house, yesterday welcomed the takeover approach from Lonrho, the UK-based conglomerate.

Mzi Khumalo, JCI's chairman, who would be offered a place on the Lonrho board under the deal, described the proposed bid as "logical and appropriate".

He said it would offer JCI shareholders from the black empowerment movement "diversification, critical mass and access to international capital markets."

A JCI board meeting also agreed in principle to demerge its remaining gold assets. Lonrho is eager to buy in the 28 per cent stake in Lonrho Anglo American is due to pass to JCI in exchange for certain gold assets.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anglian Group	6 mths to Sept 27	117.4	(106.7)	11.4	(9.53)	8.7	(7.3)	4	Feb 16	3.6	-	9
Apollo Metals	Yr to Sept 30	74.5	(71.4)	3.73♠	(3.81)	7.2	(8)	3.05	Feb 26	2.75	4.5	4.1
Assoc Nursing	6 mths to Sept 30★	18.2	(19.2)	1.02	(1.74)	4.1	(5.8)	1.05	Jan 20	0.95	-	3.7
Berkeley	6 mths to Oct 31	274	(203.2)	43.9	(30.1)	30†	(21.2)	2.65	Feb 9	2.5	-	9.5
Bradstock	Yr to Sept 30	36.8	(36.2)	7.02♠	(6.22♠)	7.5	(6.1)	3.4	Apr 2	4.1	5.7	5.7
BSS	6 mths to Sept 30	159.2	(164.7)	7.02	(6.08)	17.7	(14.7)	7	Jan 16	6.5	-	20.5
BTP	6 mths to Sept 30	216.1	(200.1)	25.2	(23.7)	10.53	(9.91)	4.2	Feb 11	4.05	-	11.75
Compass	Yr to Sept 28	3,703	(2,652)	137.8	(127.6♥)	31.2	(31.6)	6.7	Apr 7	5.85	9.8	8.6
Ensor	6 mths to Sept 30	8.36	(7.83)	0.458	(0.006♠)	1.2	(nil)	0.25	Jan 22	0.2	-	0.5
Eurocopy	Yr to Sept 30	23.2	(24.4)	4.47	(4.78)	6.06	(6.47)	1.5	Apr 4	1.76	2.43	2.64
Fayrewood	6 mths to Oct 31	-	(-)	-	(-)	-	(-)	0.5	Feb 5	0.4	-	1.2
Feedback	6 mths to Sept 30	5.26	(4.96)	0.281	(0.387L♠)	2.47	(4.57L)	nil	-	nil	-	nil
Fuller Smith	6 mths to Sept 27	55.6	(49.4)	6.06	(5.21)	16.73	(14.41)	3.6	Jan 16	3.1	-	10.03
Halma	6 mths to Sept 27	103.3	(95.1)	18.7	(17.1)	3.56	(3.2)	1.09	Feb 9	0.908*	-	2.3085*
Holmes & Marchant	Yr to Sept 30	25.7	(25.1)	1♥	(0.951♠)	2.7	(2.5)	-	-	-	-	-
Hozelock	Yr to Sept 27	52.6	(51)	7.06	(9.81)	20.1	(27.2)	7.9	Feb 13	7.9	11.3	11
Leeds	Yr to Sept 30	75	(69.7)	8.75	(3.05♠)	15.9	(5.7)	4.6	Jan 28	4.4	7	6.7
Matthew Clark	6 mths to Oct 31	272.9	(283)	17.7	(21.6)	14.2	(16.8)	5	Apr 6	9	-	24
Mentmore Abbey	6 mths to Oct 31	15.5	(10.3)	2.31	(0.159♠)	2.02†	(0.56)	0.34	Apr 1	0.6	-	0.9
Partners	28 wks to Oct 11	16.5	(14.4)	0.64L	(0.217)	0.3L	(1.9L)	0.5	Dec 31	-	-	-
Photobition	6 mths to Sept 30	14.2	(10.5)	2.1	(1.52)	14	(9.7)	3	Apr 8	2.8	-	7
Proteus Intl	6 mths to Sept 30	0.021	(0.413)	1.93L	(1.82L)	3.49L†	(3.67L)	-	-	-	-	-
Real Time	6 mths to Sept 30	7.18	(6.31)	1.48	(1.16)	14.5	(11)	-	-	-	-	6
Recognition Systems	Yr to Sept 30	0.77	(0.32)	2.26L	(1.27L)	8.3L†	(5.5L)	-	-	-	-	-
Shelton (Martin) Φ	6 mths to Sept 30	2.1	(2.19)	0.097L	(0.044L)	1.27L	(0.55L)	1.25	Jan 20	1.25	-	4.25
Vaux	Yr to Sept 30	293.1	(282.5)	38.3	(34.8)	23.38	(20.93)	7.4	Feb 6	7.04	11.1	10.6
VHE	6 mths to Sept 30	33.4	(20.1)	1.43♠	(1)	3	(2.1)	0.5	Feb 10	nil	-	1
Victrex	Yr to Sept 30	43.4	(38)	11.8	(12.9)	11.1	(11.9)	3.3	Feb 6	3	4.8	4.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Convertible	6 mths to Dec 31	-	(-)	-	(-)	-	(-)	1.6§	Jan 15	1.6	-	6.8
Archimedes	Yr to Oct 31	807.73	(670.43)	0.389	(0.363)	31.77	(29.6)	20	Feb 18	19	32	30
Edinburgh Income	6 mths to Oct 31	53.9	(43.5)	0.274	(0.235)	1.83	(1.57)	0.9♦	Jan 8	1	-	4
Henderson American	9 mths to Nov 30	-	(-)	-	(-)	-	(-)	1.8#	Feb 6	1.8	-	7.8
Invesco Asia	6 mths to Oct 31	70.9	(107.4)	0.978	(0.924)	0.66	(0.49)	-	-	-	-	0.65
R&M First UK	8½ mths to Sept 30	111.4	(97.22)	0.18	(-)	0.7	(-)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *After adjustment for scrip issue. ΦAim stock. ♦Second interim; makes 1.8p to date. §Second interim; makes 2.133p to date. #Third interim; makes 5.4p to date.

Burmah plans to revamp Castrol

By Michael Peel

Burmah Castrol, the oil and chemicals group, yesterday announced plans for a £10m ($16.7m) reorganisation of its Castrol lubricants businesses to allow it to better serve international customers.

Burmah said the changes would affect a number of senior positions, including those of Castrol regional directors.

The Castrol division sells specialised lubricants to customers in more than 150 countries, and is split into businesses which serve four geographical regions: Europe, Asia Pacific, North America and Central-Southern.

The plan will involve the reorganisation of Castrol into four global businesses to cover consumer, commercial, industrial and marine markets.

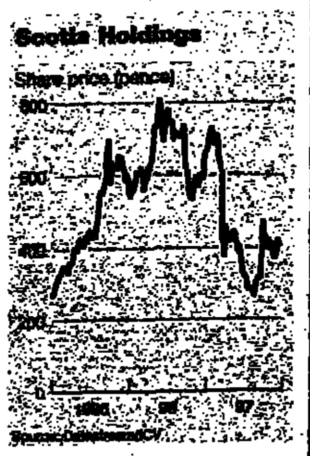
The changes will begin early next year and will take two years to implement. Burmah said it would incur £7.5m of the restructuring charge this year.

John Ellicock, director of both Castrol Europe and Burmah Castrol, will leave the company next May when the post of regional director ceases to exist. Burmah did not reveal details of his compensation package.

Burmah said the reorganisation was an "aggressive rather than a defensive act".

LEX COMMENT

Scotia



David Horrobin had long outlasted most scientists as leaders of the companies they founded, and the time was ripe for him to hand over to a more commercially oriented chief executive. He remains in an appropriate consultancy role, with Scotia retaining an interest in his capacity for invention via the research and development business spun off with him.

While the ideal scenario might be for the founder to synthesise creative and entrepreneurial skills, this hardly ever happens. The twin risks here are that Dr Horrobin will take some of Scotia's creative heart with him, and that the prospect of his selling a chunk of shares will overhang a stock that had only recently started to recover.

Time is now pressing for his successor, Robert Dow, to assess the portfolio of potential drugs and compounds. He also has to work out a new management structure. Scotia will need to show its direction is being well honed as it approaches its next fund-raising. The company is using up about £30m a year and, while it has more than half that in the bank, new sources need to be identified by the middle of next year. Options include selling off the Efamol nutritional business and a share issue in the UK or US.

With the result of Mr Dow's review due next March, it is vitally important that no bad news emerges in the interim. At least Dr Horrobin continues to have an interest in sustaining Scotia's market value at its much reduced level of £320m.

Compass points to organic growth

By Scheherazade Daneshkhu

Compass Group, the acquisitions-led contract catering group, yesterday ruled out further purchases in the medium term and said it would focus on organic growth.

Francis Mackay, chief executive, said it now had the international buying power and market share necessary to expand the existing business. The integration of the £120m Daka business in the US, and the £227m SHRM group in France was well advanced and benefits would come through next year.

Pre-tax profits for the year to September 28 rose from £127.6m to £137.8m ($230m).

Group turnover increased from £2.65bn to £3.7bn, including a £196m contribution from acquisitions.

New contracts included staff catering at Disneyland, Paris, for BAA staff at Heathrow, London and for Louisiana State University in the US.

Mr Mackay said the three main geographical divisions had contributed to overall like-for-like growth of 8 per cent in turnover and 15 per cent in operating profits. In the UK like-for-like sales growth was 11 per cent, and 8 per cent in North America and continental Europe.

LEGAL NOTICE

In the High Court of Justice No 005424 of 1997
Chancery Division
Companies Court

Mr Registrar Buckley
Wednesday the 26 November 1997
IN THE MATTER OF
CORDIANT PLC
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 26 November 1997 confirming the reduction of the capital of the Company from £269,729,907.60 to £150,500,000 by cancellation of the 2,384,598,152 issued deferred shares of 5 pence each in the capital of the Company; the reduction of the share premium account of the Company by £137,270,092.40; and the reduction of the capital redemption reserve of the Company by £86,500,000 was registered by the Registrar of Companies on 27 November 1997.

DATED this 10th day of December, 1997
Macfarlanes
10 Norwich Street
London EC4A 1BD
Tel: 0171 831 9222
(Ref: NRW542638)
Solicitors for the above-named Company

COMPANIES AND FINANCE: UK

On the scent of a winning formula

Roger Taylor analyses why many chemicals companies are changing direction

Why does mint work as a flavour for toothpaste while strawberry does not? And why is Imperial Chemical Industries planning to invest money to find out?

The reason is the need to protect the £4.9bn it paid for Unilever's speciality chemicals business earlier this year in a deal that transformed the company from an industrial chemicals manufacturer into a leading specialities group.

ICI is not alone in spending cash on speciality chemical businesses.

Hercules, the US specialities group, has made a hostile £1.1bn bid for Allied Colloids; Yule Catto is paying £240m for Holliday Chemical Holdings; Harrisons & Crosfield has sold its buildings materials and food divisions to focus on speciality chemicals; Laporte has sold off several businesses to expand in more specialised areas.

Chemicals have proved a dire investment over the past decade; the sector has underperformed the market by 35 per cent. This is one reason for the recent spate of acquisitions – it has made chemical companies relatively cheap with many in the sector at discounts of 15-35 per cent to the market.

But among the disappointments are many areas of growth. Bill Turcan, chief executive of Harrisons & Crosfield, chose to focus on speciality chemicals as it was the only part of his company producing adequate growth: its chrome chemicals business, which supplies the aerospace and leather industries, has doubled in size over the past five years.

David Ingles, industry analyst with HSBC James Capel, said: "The discounts on some of these companies have been overdone. Some can achieve a market rate of growth or better, but there are not that many of them, giving them scarcity value."

The attractions of speciality chemicals can be seen from the ICI/ Unilever deal that made ICI one of the world's leading flavour and fragrances companies: its Quest subsidiary designed the Tommy Girl scent recently launched by Tommy Hilfiger.

Flavours and fragrances are archetypal speciality chemicals. They tend to be made to order for a customer, are needed in relatively small quantities, but make a vital contribution to the end product.

This affords protection from competition and allows the maker to charge higher prices – a far cry from commodity chemicals where prices are set in highly cyclical world markets.

Consolidation has been driven in part by the need for globalisation: many of the industries that make most use of speciality chemicals – pharmaceuticals, cosmetics, food and drink, aerospace – operate globally.

Many companies are choosing to focus on fewer products and become global leaders in them. Adhesives is a good example. Second-line participants, such as Laporte, are selling their businesses while others, such as Henkel of Germany, have bought market leading positions. One attraction is that the markets are relatively small – £1bn would count as large – allowing medium-sized companies to take dominant positions.

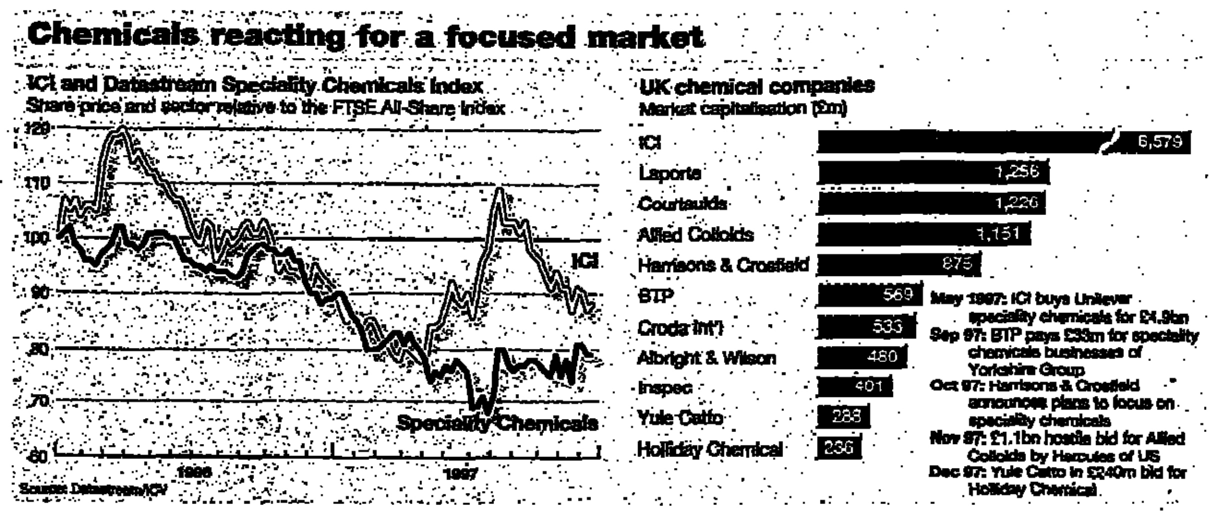
Other companies are focusing on particular industries. Hercules and its target, Allied Colloids, both provide chemicals to the paper manufacturing industry.

The fear for companies buying into specialities is "commoditisation" – where products begin as high-priced specialities but gradually become commonplace as the technology needed to make them becomes widely available, and prices fall.

Charles Miller Smith, chief executive of ICI, is determined this will not happen to his investment: "We need to create barriers to entry by designing highly specific applications backed by sufficient innovation to meet customer needs."

ICI's operations review, due to be completed early next year, will lay out its strategy for the next two to five years. One conclusion already emerging is the need to increase development spending and create new broad research teams, one of which would be the sensory perceptions group charged with looking into the issue of which flavours work in toothpaste.

Finding the answer to questions such as that could prove vital if ICI is to make sure it is still a leading company in speciality chemicals five years from now.



Growth in US buoys BTP despite sterling

By Emiko Terazono

Strong growth in the US and the acquisition of a fine chemicals producer there helped BTP, the speciality chemicals group, to a 6.3 per cent rise in interim profits to £25.2m ($42.1m).

Steve Hannam, chief executive, said that stripping out the effects of currency translation, pre-tax profits would have been 26 per cent higher for the six months to September 30.

The group was refocusing on chemical products, including fine chemicals and leather and biocides. PCR, the US fine chemicals maker which BTP bought last April, performed beyond expectations during the first half.

The group also purchased the leather chemicals business of Yorkshire for £33m in October. It was being integrated into the Hodgson Chemicals business.

Mr Hannam said the sale of its adhesives and textile coatings activities would be completed by the end of March. Some 30 potential bidders had indicated interest, and the advisers were drawing up a shortlist.

The purchase of PCR helped operating profits in the US rise 43 per cent to £17.4m, with operating margins at 18 per cent. "We would happily add to business in the US because of low costs and the large market," said Mr Hannam.

The biocides and fine chemicals division reported a 27 per cent rise in operating profits to £17m, but profits at the performance chemicals division, which includes leather chemicals and concrete additives, were flat.

The safety equipment division, which makes safety harnesses, also saw static profits because of the currency effect.

Net debt totalled £58.5m at the year end, but rose to £90m after the Yorkshire Group purchase.

BTP said it expected to return to a net cash positions after the sale of the adhesives business.

The shares yesterday rose 1¼p to 337p.

Allied Colloids defence to emphasise rising margins

By Emiko Terazono

Allied Colloids, the UK speciality chemicals company, will today produce its defence document against the £1.07bn (£637m) hostile bid launched by Hercules, the US chemicals group.

Allied's management, led by David Farrar, chief executive, will try to convince shareholders that they can deliver better value than the 155p-a-share bid.

They are expected to point to its sales record and position as a leading maker of polymer chemicals, and to improving operating margins from cost controls.

Allied, which had profits of £55m on sales of £437m last year, is expected to refer to efforts to control raw material and currency costs and the benefits from the past investments, including its US finished polymer manufacturing subsidiary.

Hercules, a Delaware-based chemical group which makes water-soluble polymers, with operating profits of $441m has blamed Allied's management for destroying shareholder value.

It points to Allied's share price, and profits decline over the past year, while the UK group's poor return on capital employed has also been under attack.

The release of Allied's defence document comes as some large institutional investors have started to take profits on their holdings in the UK group.

With the share price hovering between 167p and 169½p since the bid was announced last month, some 23m shares have been sold by institutions including JP Morgan Investment Management, Scottish Widows and Hill Samuel.

The buyers are believed to be US arbitrageurs.

The shares lost ½p to close at 167p.

Diversifying Halma again detects improvement

By Andrew Edgecliffe-Johnson

Halma, the detection and safety group, yesterday reaffirmed its strategy of assembling a diverse portfolio of specialist engineering companies as it reported increased interim profits for the 22nd year in succession.

The shares rose 16p to 118½p as pre-tax profits rose 10 per cent to £18.7m ($31.2m). The shares had fallen by 35 per cent since September on fears that the strong pound and the turmoil in Asian markets might have dented profits further.

"Halma keeps dodging the bullets," said Paul Compton, of Merrill Lynch: "About 25 per cent of its sales are from exports and 15 per cent from the Far East, so if anyone were going to get murdered it should have been Halma."

Stephen O'Shea, chief executive, said its strategy was "totally unchanged", despite calls from some analysts for Halma to dispose of its larger businesses.

The group had been unable to find acquisition targets that met its requirements. It had net cash of £13.5m at the end of September and remained "interested in businesses where we see high prospects for future growth".

"We don't buy businesses that won't move the group forward," Mr O'Shea added. Each managing director in its eight divisions had an objective of 25 per cent annual profit growth and a 40 per cent return on capital.

Sterling took £2.6m off profits, but was mitigated by management action, he said.

Turnover was 9 per cent higher at £103.3m and earnings per share were up 11 per cent to 3.56p, thanks partly to a recovery in two businesses.

Energis shares rise 2p on debut

By Alan Cane

Energis, the telecommunications subsidiary of the National Grid, yesterday made a satisfactory if unspectacular market debut.

Offered at 290p, the shares closed up 2p.

National Grid and Energis executives had been keen to avoid the example of other telecoms stocks, which in recent weeks have fallen sharply after technical and marketing difficulties.

Michael Grabiner, Energis chief executive, said he was delighted by the float.

"It has been a great success. A year ago few people knew about Energis, yet today we are a publicly quoted company with a market capitalisation close to £900m."

The offer was some three times subscribed, and the offer price values the company at about £850m ($1.42bn).

The Grid retains a 74.3 per cent stake, while the flotation raised a net £203m to pay back loans from the parent.

Some 75m shares were offered in London and New York, with 55 per cent held in the UK, and 37.5 per cent in the US.

Eagle Eye · Louise Kehoe

Intel tries to net TV

The promoters of interactive television may find couch potatoes are just not interested in chips

Interactive television: take three. The first generation of interactive services delivered to the television screen was a flop and the second generation "web on TV" has not exactly taken the world by storm, but the directors of the high-tech world refuse to give up.

Intel, the semiconductor superpower, is determined to find its place in your living room – one way or another. The chipmaker, which declared only a year ago that it was engaged in a "battle for eyeballs" between the PC and TV set, has changed its tune.

The battle is now "obsolete", Intel says. The issue is how to bring digital content – both video and data – to whatever screen you may wish to view it on, as soon as possible. To that end, Intel is backtracking on demands for "PC-friendly" display standards and forging alliances with broadcasters and "content creators" as fast as its multi-legged chips can carry it. The basic building blocks for the next generation of interactive television are in prototype form and market tests will begin early next year. Commercial services will roll out in the second half of 1998, the chipmaker confidently predicts.

But why should interactive TV succeed this time round? Intel and others in the high-tech industry are convinced the excitement created by the internet will draw consumers to new interactive TV services.

They envisage TV programmes linked to associated web sites and an electronic programming guide with hyperlinks to both video and text. Unfortunately, the result is an ugly mix. Web pages are primarily text and are designed to be read on a PC monitor. TV programmes are created for a different audience and medium.

Technical battles between the PC and the TV worlds may be waning but the challenges of blending two very different media have yet to be resolved. It may be several more "takes" before interactive TV is ready for primetime.

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New computer technologies go through several predictable phases before they become established – or die a quiet death.

First, there is the hype as the new technology is uncritically acclaimed. Next comes the inevitable backlash as the "old guard" points out the shortcomings of a new approach and cynics write the new technology off as a fad. But it is the "reality" phase that is critical. This occurs when computer users – whether individuals or businesses – begin to apply the technology to their daily tasks and find out its real value.

The internet is now in this "reality" phase. Certainly, there is still a lot of overblown excitement and indeed a lot of negative commentary, but the true potential of internet technology is beginning to be recognised.

When it all boils down, the internet is a tool much like the telephone. It is a set of technologies and standards that enable multitudes of users to communicate and share information at relatively low cost.

> The distribution of information in an organisation can upset the old order if management hierarchies are based on access to data

In the "hype" phase it seemed that the internet might have massive social and economic impact. It would do away with the established media, create a global counter-culture and render monetary systems obsolete through the creation of "cybercash", internet enthusiasts predicted.

Instead, the internet has been adapted to commercial and mainstream consumer interests and is becoming a channel for electronic commerce. Nonetheless, internet technology is having profound effects on the way businesses operate.

The distribution of information within an organisation, for example, can upset the old order if management hierarchies are based on access to information. Similarly, the internet can force companies to rethink their marketing, distribution and customer relations.

Internet technology is a business tool, not a solution. Like the personal computer in the 1980s, it can change the way businesses operate. Like any other technology, it can be used well to enhance the performance of a business. But if poorly implemented it may create business problems.

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Beware of e-mails bearing "gifts". Hackers have come up with a new ruse to steal passwords from subscribers to internet services by disguising them as offers of free trial software from well-known companies.

Prospective victims are contacted by e-mail. When they download and install the software it turns out not to be the promised freebie. Instead it is a "sniffer" that detects and transmits the user's password to the sender. In a recent such attack on America Online subscribers, the rogue program also prevented users from changing their passwords.

How can users avoid these software vandals? Network Associates, the newly named company formed by the merger of McAfee Associates and Network Dynamics, plans to offer software that will detect rogue applets (mini-programs) before they reach the desktop as part of its new security suite for corporate networks.

For home users of the internet, there is only one sure safeguard – do not download software, especially from unknown sources. If you have any doubts, better to contact the company first to ensure the e-mail offer is legitimate.

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On the topic of e-mail, not all unsolicited messages are unpleasant. Bottle Mail, a Japanese service, promises to deliver your message to a distant, unknown subscriber, much as if you had tossed it into the ocean in a bottle.

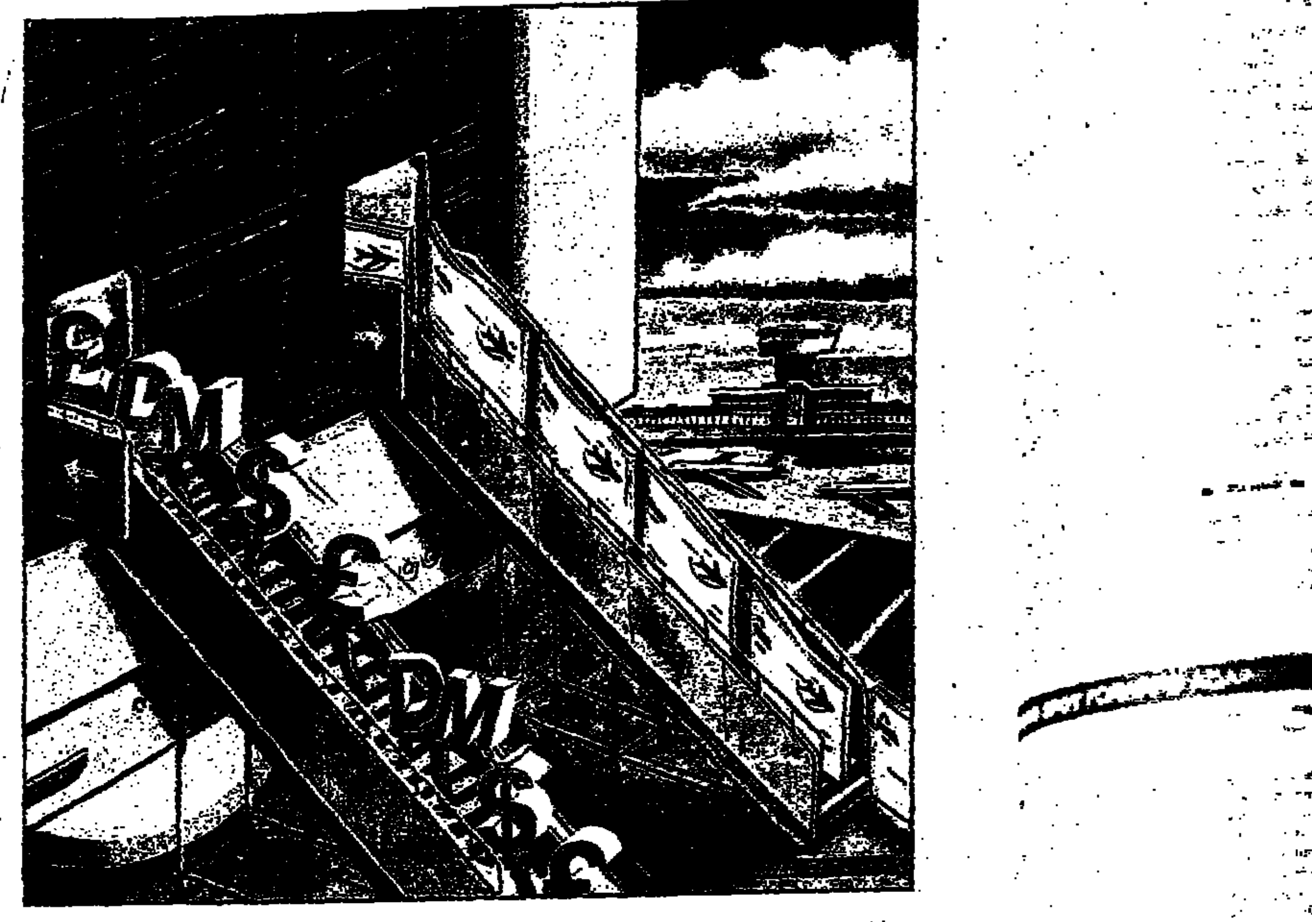
This is quite a tradition among internet veterans. They print out messages, pop them in a bottle and toss them into the local sea or river, hoping they will be picked up by another internet-savvy person. The bottle mail web site takes this further into the digital domain by delivering messages to people randomly selected from its subscriber base. So far, bottle mail has 60,000 subscribers who send an average 5,000 messages daily. That's a lot of bottles to find on the beach. Clean up crews can find the service at (www.kids.recruit.co.jp/bmail).

Share your views in the Eagle Eye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on louise@FT.com

Geoff Nairn · Using the world wide web

Trading standards

Transaction processing has been given a new lease of life



A growing need to handle business transactions over the internet has brought new life to the long-established technology of transaction processing.

Redesigned to cope with the internet, the latest transaction processing software promises to make business web sites reliable.

Make a flight reservation today and the booking will probably be handled by a traditional online transaction processing (OLTP) system. The travel agent taps the details into a terminal and the data are sent by private network to a mainframe computer that seconds later confirms the transaction.

OLTP is vital to many businesses that each day must process thousands, if not millions, of transactions. IBM claims 80 per cent to 90 per cent of credit card authorisations are handled by OLTP systems running its Transaction Processing Facility software. This is a "TP monitor" – a program that allows the computer to reliably handle large numbers of simultaneous transactions.

TPF was developed to run American Airlines' Sabre reservation system and is IBM's heavyweight OLTP product. Its bestseller is Customer Information Control System (Cics), used by many financial, manufacturing and retail users. OLTP grew up with the mainframe but in the early 1990s the mainframe was eclipsed by "distributed systems" using cheaper, off-the-shelf hardware and software.

A new generation of TP monitors was developed specifically for the systems. Tuxedo, from US company BEA Systems, is the most popular of the distributed TP monitors. It was designed by Bell Laboratories to control telephone exchanges and passed through various owners before BEA acquired it in 1995.

Growing interest in distributed TP has created a burgeoning market for products such as Tuxedo, and the transactional software market will grow to \$3.7bn (£2.2bn) in 2000 from \$1.5bn in 1996, predicts the Standish Group, a US research company.

One Tuxedo user is IBOS, the electronic payment network created by the Royal Bank of Scotland and Spain's Banco Santander. IBOS chose Tuxedo to migrate from proprietary technology to a client/server system running over a private network that links its seven member banks.

Another distributed TP monitor, UniKix, from US vendor UniKix Technologies, can do the functions traditionally performed by IBM's Cics. Volkswagen de Mexico adopted UniKix to migrate its manufacturing software to a distributed system. The project involved moving 5,000 programs from its IBM mainframe to 20 smaller servers and the migration has allowed the carmaker to cut its computing staff by 25 per cent.

The internet could dramatically increase the range of applications that can benefit from transaction processing, but there are technical challenges. Unlike a mainframe or distributed system, where the computers keep in constant communication, the internet works like a walkie-talkie radio, continually dropping and remaking the connection as data is sent.

This creates unpredictable performance when using the internet for real-time transactions, such as order entry, customer service and, in particular, electronic commerce. Software packages exist to allow businesses to create "virtual stores" and take orders through the web, but when traffic increases response times slow to a crawl.

"Expectation levels of [internet] users are changing very quickly," says Andy Bellinger, marketing manager with Sybase, the US software company. "If a site does not respond, the user will go somewhere else."

Sybase wants to bring OLTP performance and reliability to internet-based transactions. Its Jaguar product marries a TP monitor with object technology – a component approach to software development – in order to allow businesses to develop TP applications for the internet out of reusable objects. Sybase claims Jaguar allows web sites to handle unpredictable workloads and growing numbers of users better.

Other TP vendors are adapting their products to work over the internet. Unikix has launched Web Client, which lets mainframe-based Cics applications be accessed over the internet or corporate intranets using Java "applets", or mini-programs, that run in web browsers. Dedicated terminals or special PC software are traditionally needed to use Cics programs.

BEA Systems has developed a similar product, called Jolt, designed to extend the capabilities of Tuxedo to the internet. "The main purpose of Jolt is to allow the internet to be used for electronic commerce," says Jeri Edwards, vice-president of strategy and product planning at BEA Systems.

The Java-based Jolt product allows Tuxedo automatically to "roll back" or undo web transactions that do not complete successfully – when communication is lost, for example. Roll-back is important because without it the half-finished transaction remains on the web server in a state of limbo, wasting precious computing resources.

BEA and Netscape recently demonstrated how Java and Tuxedo can bring traditional mainframe-based OLTP programs to the web. In the demonstration, of an airline frequent flier program, a Java applet running in a web browser updated frequent flier information in the mainframe program via the internet, with Tuxedo acting as "gateway" between the PC and mainframe.

IBM invented OLTP and still claims a mainframe is unbeatable for high-end applications. "For an airline reservation system that needs sub-second response times TPF may be the only solution," says Len Pelletiere, IBM's director of travel solutions. But IBM is also embracing net-based TP and next year it will introduce a product to allow a mainframe running its TPF monitor to "serve" its own web pages.

This will give internet users direct access to TPF applications, rather than having to go through intermediate gateways and web servers – the solution used today by web sites offering online travel reservations.

Information Technology

The FT's 16-page review of Information Technology appears on the first Wednesday of each month

Making the welfare system work

The rise of the welfare state and increasingly complex regulations have led employment services in several countries to turn to transaction processing technology to improve efficiencies and help the unemployed find that elusive job more quickly.

The UK's Employment Services agency recently adopted an open TP monitor, BEA Systems' Tuxedo product, to link the systems used to pay benefits, handle vacancy notifications and support clients in the job interview process, which had previously required separate screens.

The agency has just finished installing 25,000 PCs in its 1,000 JobCentres to provide single-screen access to data held centrally in different databases. It chose a TP system because of the need to handle reliably varying workloads that can reach 7.2m transactions a day.

The agency wants to use the system to offer new services, such as self-service terminals that allow clients to match their skills to vacancies.

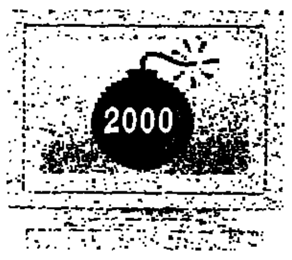
The biggest challenge for the new system will come next year with "New Deal" regulations that will oblige the agency to find a job, training or college place for every youngster who is unemployed for more than six months. This will require information to be shared with colleges and businesses and there may even be job vacancies on the internet.

The Swedish Employment Exchange, AMS (*Arbetsmarknadsstyrelsen*), also recently installed a distributed TP network. Each day the Swedish system handles up to 1.5m transactions, often requiring complex multiple searches in central databases. AMS chose Open-UTM, a distributed TP monitor supplied by Siemens-Nixdorf.

Millennium Watch · Joia Shillingford

Behind the times

A quirk of history has lulled Taiwan's software users into a false sense of security



The millennium time bomb may be a worldwide problem, but there are regional variations. In Taiwan more than half the software in use is set to "1986", because 1911, the year it seceded from China, counts as year one.

But experts say this is no reason for Taiwanese software users to be complacent. "A lot of people here are thinking they have 11 extra years to sort out the problem," says Arthur Hwa of the Taiwan-based Computer Information Service Industry Association. "But this isn't true, because often software [made in the west] assumes it is 1997, and an extra line of code added in Taiwan deducts 11 from the western calendar."

This means that in 2000, the Taiwanese version of the software will not work if the original western software cannot cope with "00" as the underlying date.

In many cases the two-digit date field in western software also contains a + or other sign to show that the number in the field must be a positive one. However, some software does not indicate that dates must be positive, says Mr Hwa.

This could cause problems even if the software recognises 00 for the west's year 2000. If 11 is subtracted and the software is not programmed to recognise that dates must always be positive, Taiwanese companies could find themselves in the year "minus 11".

"Dates are used to calculate all sorts of different things," explains Mr Hwa, "such as the number of days interest payable. So it's a time bomb ticking away."

To make matters worse, some software which is set to 1986 has to interact with software set to 1997. Ben McCafferty, a consultant at software and services company Sema, which is opening an office in Taiwan, says: "Our billing software for Taiwanese mobile phone companies Far EasTone Telecoms and TuntexTelecom puts bills out with 1986 on. But certain applications in the Taiwanese market are set to the western year, such as the network switches of network operators." Sema's software has to translate between the two.

The Taiwanese association has put together a Year 2000 taskforce in co-operation with the Taiwan government and will be campaigning this year to raise awareness of the problem. But it is concerned both about skills shortages and about raising sufficient future funds for its campaign.

At present its taskforce is alerting companies and government departments. Mr Hwa says financial companies, which often use western dates, are being audited by Taiwan's central bank. So they are furthest ahead in fixing date change problems.

Government and many companies are reacting more slowly and it is not yet clear how much it will cost government and the private sector to defuse the millennium bomb.

Mr Hwa, former secretary general of Cisa, is organising the Year 2000 World Congress on IT, to be held in Taipei in June 2000. Cisa, tel Taiwan 625363900, fax 625624481, e-mail ArtHwa@ms10.hinet.net

CURRENCIES AND MONEY

Talk of Japanese package boosts yen

MARKETS REPORT

By Simon Kuper

The yen rallied yesterday on belief that Japan would unveil a Y10,000bn package for its stricken banks on Friday.

The market had been expecting *far smaller* measures from Tokyo. A large package could boost confidence in Japan's healthier banks, by improving their balance sheets and thus enabling them to write off bad debts. The package could cut the premium they have recently had to pay to borrow in the money markets. The "Japan premium" has already fallen in recent days.

Japan's government is still thought to want to put pressure on weaker banks to close or merge.

The package would not raise the fiscal deficit, as it would consist of bonds backed by shares owned by the government in the privatised Nippon Telegraph and Telephone Corp (NTT) and Japan Tobacco.

The leaks about the package pleased the market. But 4CAST, the economic consultancy, warned that even Y10,000bn might not be enough. "It is a sobering thought that the real bad debts of the banking system likely amount to at least $500bn," 4CAST said.

A seasonally adjusted rise of 11,000 in German unemployment for November *hardly moved the D-Mark*. However, the currency fell against the dollar as well as against the yen. Joe Prendergast, head of foreign exchange research at Credit Suisse First Boston in London, said the dollar was continuing to benefit against the D-Mark from the recent *upgrading in prospects of a* US rate rise and the fading prospects of a German increase. Nick Stamenkovic, economist at DKB International in London, warned that with the dollar near DM1.80, Bundesbank officials might intervene verbally to boost the D-Mark.

The yen, shrugging off sharp falls in the South Korean won and the Indonesian rupiah, rose Y0.7 against the dollar and Y0.63 against the D-Mark to close in London at Y129.9 and Y72.37 respectively. The yen's rise was exaggerated by the approach of the end of the year, which encouraged many investors to book their profits on the dollar's long advance. The dollar rose 0.7 pfennigs against the D-Mark to DM1.795.

■ Philippa Malmgren, currency strategist at Bankers Trust in London, who has recently spoken to members of the Japanese Diet and ministry of finance officials, has gathered that Japan is planning to intervene soon.

"The Y10,000bn package could be enough to get the yen to correct upwards a bit. I believe that the Japanese authorities will take advantage of even the slightest correction and intervene in the market to cause a larger correction." If the yen rose by a mere Y0.40 or so against *the dollar, she said, Japan* would then sell dollars in an attempt to force those investors who were overweight the US currency to sell too.

Ms Malmgren said: "The Japanese authorities are trying to create confidence. And that means asset prices that rise, including the yen."

■ The pound was barely affected by a 0.1 per cent rise in retail prices for November. But the figure followed producer price and industrial output data, and a survey of high street sales, which all suggested the UK economy was slowing. So there has been a fall in interest rate expectations. The September 1998 short sterling futures contract rose 8 basis points yesterday, to price in base rates of below 7.50 per cent.

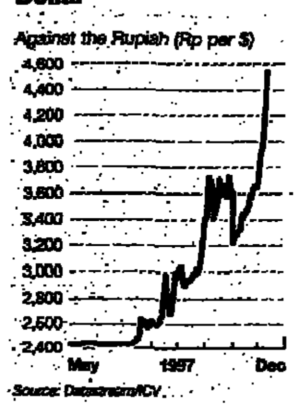
The rise in short sterling contracts may also be linked to the demise of the Japan premium. As Japanese banks pay less to borrow, money market rates would be expected to fall.

■ The Korean won dropped from 1,342.4 against the dollar to 1,465.7, as doubts grew over the country's will to implement the demands of the International Monetary Fund. The fund last week backed a $57bn rescue package for Korea.

The Indonesian rupiah dropped sharply on rumours, later denied, that President Suharto was badly ill. Late yesterday the rupiah was at 4,510/50 to the dollar, almost 400 below its opening level. It was the currency's largest ever one-day drop.

Dollar

Against the Rupiah (Rp per $)



Source: Datastream/ICV

■ Pound in New York

Dec 9	—Latest—	—Prev. close—
£ spot	1.6495	1.6480
1 mth	1.6483	1.6465
3 mth	1.6387	1.6452
1 yr	1.6205	1.6219

■ OTHER CURRENCIES

Dec 9	£	$
Czech Rp	57.8123 - 57.9098	35.1400 - 35.1800
Hungary	332.791 - 333.055	202.250 - 202.330
Iran	4929.30 - 4935.89	3000.00 - 3000.00
Kuwait	0.5020 - 0.5025	0.3051 - 0.3053
Poland	5.8454 - 5.8551	3.5530 - 3.5630
Russia	9733.60 - 9743.27	5916.00 - 5919.00
U.A.E.	6.0425 - 6.0451	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.7810	+0.0442	698 - 921	20.7951	20.6492	20.7135	3.9	20.589	3.7	20.0755	3.4	102.4
Belgium	(BFr)	60.9031	+0.1038	675 - 386	60.9460	60.6730	60.6623	4.2	60.3207	3.8	58.7985	3.5	101.8
Denmark	(DKr)	11.2449	+0.0225	402 - 496	11.2480	11.1923	11.2094	3.8	11.1449	3.6	10.8929	3.1	104.2
Finland	(FM)	8.9106	+0.0079	030 - 182	8.9160	8.8760	8.8783	4.3	8.8289	3.9	8.6111	3.4	80.6
France	(FFr)	9.8658	+0.0229	627 - 689	9.8899	9.8366	9.852	4.1	9.7902	3.9	9.5397	3.4	105.4
Germany	(DM)	2.9533	+0.0062	518 - 547	2.9548	2.8379	2.9438	3.9	2.9253	3.8	2.8508	3.5	103.0
Greece	(Dr)	463.465	+1.811	925 - 003	464.850	461.440	465.407	-5.0	470.191	-5.8	487.099	-5.1	65.5
Ireland	(I£)	1.1344	-0.0024	335 - 355	1.1363	1.1315	1.1332	1.2	1.1305	1.4	1.1083	2.3	97.0
Italy	(L)	2880.82	+4.93	697 - 167	2891.97	2878.51	2887.11	1.3	2879.34	1.5	2822.87	2.3	78.0
Luxembourg	(LFr)	60.9031	+0.1038	675 - 386	60.9460	60.6730	60.6923	4.2	60.3207	3.8	58.7985	3.5	101.9
Netherlands	(Fl)	3.3264	+0.0072	255 - 301	3.3312	3.3120	3.3171	4.1	3.2964	3.8	3.2124	3.5	101.2
Norway	(NKr)	11.9926	+0.0056	865 - 986	11.9895	11.8621	11.9212	4.2	11.8494	3.8	11.5799	3.2	99.1
Portugal	(Es)	301.401	-0.577	224 - 578	301.873	300.097	300.763	2.6	299.446	2.6	292.77	2.9	91.6
Spain	(Pta)	249.440	+0.525	330 - 549	249.890	248.390	248.864	2.8	247.756	2.7	242.149	2.9	78.5
Sweden	(SKr)	12.8980	+0.0306	901 - 059	12.9197	12.8311	12.8648	3.1	12.8087	2.8	12.6083	2.2	85.4
Switzerland	(SFr)	2.4065	+0.0124	050 - 079	2.4082	2.3841	2.3944	6.0	2.372	5.7	2.2761	5.4	107.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	104.1
Ecu	-	1.4925	+0.0053	914 - 932	1.4936	1.4846	1.4884	3.2	1.4808	3.1	1.4486	2.9	-
SDR†	-	1.226168	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6454	-0.0013	449 - 458	1.6483	1.6427	-	-	-	-	-	-	-
Brazil	(R$)	1.8294	-0.0024	288 - 300	1.8331	1.8277	-	-	-	-	-	-	-
Canada	(C$)	2.3386	-0.0041	365 - 406	2.3438	2.3385	2.3325	3.6	2.3198	3.4	2.2731	2.8	83.0
Mexico	(New Peso)	13.3479	-0.0182	360 - 597	13.3609	13.3308	13.4910	-13.0	13.7642	-12.5	14.8208	-11.8	-
USA	($)	1.6457	-0.0022	452 - 461	1.6494	1.6438	1.6435	1.6	1.6386	1.7	1.6187	1.6	108.7
Pacific/Middle East/Africa													
Australia	(A$)	2.4574	+0.012	559 - 590	2.4717	2.4482	2.4621	2.6	2.4516	2.6	2.4106	2.3	88.8
Hong Kong	(HK$)	12.7365	-0.0141	322 - 408	12.7624	12.7238	12.7325	0.4	12.7694	-1.7	13.0999	-2.8	-
India	(Rs)	64.1146	-0.03	559 - 732	64.3770	64.0450	-	-	-	-	-	-	-
Israel	(Shk)	5.8215	-0.017	127 - 303	5.8366	5.8120	-	-	-	-	-	-	-
Japan	(Y)	213.739	-1.421	254 - 223	215.420	213.450	212.394	7.5	209.879	7.2	198.769	7.0	118.9
Malaysia	(M$)	6.0359	-0.0116	254 - 453	6.0649	5.9027	6.0301	1.2	6.0335	0.2	6.167	-2.2	-
New Zealand	(NZ$)	2.7545	+0.0031	521 - 568	2.7696	2.7447	2.7546	0.0	2.7557	-0.2	2.759	-0.2	104.7
Philippines	(Peso)	57.7541	-0.0873	807 - 275	58.5193	57.5641	58.4262	-14.0	59.8358	-14.4	65.4297	-13.3	-
Saudi Arabia	(SR)	6.1721	-0.0088	703 - 739	6.1861	6.1654	6.1657	1.3	6.151	1.4	6.0857	1.4	-
Singapore	(S$)	2.6738	+0.0114	718 - 757	2.6830	2.6532	2.6768	-1.3	2.6782	-0.7	2.6631	0.4	-
South Africa	(R)	8.0349	+0.0121	302 - 396	8.0405	8.0069	8.0944	-8.9	8.1921	-7.8	8.5837	-6.8	-
South Korea	(Won)	2412.03	+199.9	137 - 269	2417.09	2210.40	-	-	-	-	-	-	-
Taiwan	(T$)	52.6246	+0.0491	822 - 670	52.7813	52.5712	52.5722	1.2	52.455	1.3	51.8502	1.3	-
Thailand	(Bt)	69.7016	+0.8193	591 - 440	70.2870	67.9100	70.1133	-7.1	70.5137	-4.7	72.812	-4.5	-

† Rates for Dec 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.6278	+0.044	245 - 311	12.6360	12.5650	12.6039	2.3	12.5658	2.0	12.4026	1.8	102.3
Belgium	(BFr)	37.0085	+0.1135	870 - 200	37.0250	36.8360	36.925	2.7	36.8085	2.2	36.3135	1.9	102.1
Denmark	(DKr)	6.8331	+0.023	321 - 341	6.8358	6.8001	6.8198	2.3	6.8014	1.9	6.7261	1.5	103.9
Finland	(FM)	5.4147	+0.0122	115 - 178	5.4195	5.3915	5.4017	2.9	5.3841	2.3	5.3182	1.8	80.4
France	(FFr)	6.0073	+0.0222	070 - 075	6.0080	5.9758	5.9941	2.6	5.9745	2.3	5.8919	1.9	105.1
Germany	(DM)	1.7946	+0.0062	942 - 950	1.7955	1.7855	1.791	2.4	1.7855	2.1	1.7605	1.9	102.8
Greece	(Dr)	281.630	+1.18	380 - 880	281.950	280.170	283.205	-6.7	286.785	-7.3	300.855	-6.8	65.5
Ireland	(I£)	1.4507	-0.0022	497 - 517	1.4568	1.4480	1.4502	0.5	1.4490	0.5	1.4502	-0.7	-
Italy	(L)	1750.34	+5.39	600 - 668	1756.80	1748.20	1756.75	-0.3	1757.16	-0.2	1743.56	0.7	75.8
Luxembourg	(LFr)	37.0085	+0.1135	970 - 200	37.0500	36.8360	36.925	2.7	36.8085	2.2	36.3135	1.9	102.1
Netherlands	(Fl)	2.0225	+0.0071	220 - 230	2.0250	2.0121	2.0181	2.6	2.0116	2.1	1.984	1.9	101.3
Norway	(NKr)	7.2692	+0.0439	675 - 709	7.2725	7.2040	7.253	2.7	7.2315	2.1	7.1532	1.6	98.8
Portugal	(Es)	183.150	-0.6	100 - 200	183.320	182.220	183.001	1.0	182.705	0.9	180.855	1.3	92.2
Spain	(Pta)	151.575	+0.525	550 - 600	151.620	150.890	151.448	1.0	151.205	1.0	148.605	1.3	76.7
Sweden	(SKr)	7.8377	+0.0295	350 - 403	7.8415	7.7889	7.8275	1.6	7.8159	1.1	7.7877	0.6	84.8
Switzerland	(SFr)	1.4623	+0.0065	618 - 628	1.4635	1.4535	1.4587	4.6	1.4476	4.0	1.4063	3.8	108.4
UK	(£)	1.6457	-0.0022	452 - 461	1.6494	1.6438	1.6435	1.6	1.6387	1.7	1.6186	1.6	104.0
Ecu	-	1.1026	-0.0006	024 - 031	1.1088	1.1020	1.1043	-1.7	1.1086	-1.4	1.1177	-1.4	-
SDR†	-	0.74129	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	+0.0005	995 - 996	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1117	+0.0001	116 - 117	1.1118	1.1115	-	-	-	-	-	-	-
Canada	(C$)	1.4217	-0.0006	214 - 219	1.4222	1.4201	1.4193	2.0	1.4159	1.6	1.4045	1.2	82.9
Mexico	(New Peso)	8.1110	-	060 - 160	8.1165	8.1165	8.218	-15.8	8.401	-14.3	9.191	-13.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	109.3
Pacific/Middle East/Africa													
Australia	(A$)	1.4994	+0.0094	988 - 999	1.5010	1.4985	1.4986	0.6	1.496	0.9	1.4853	0.9	88.1
Hong Kong	(HK$)	7.7395	+0.002	390 - 400	7.7410	7.7370	7.744	-0.7	7.782	-2.7	8.0645	-4.2	-
India	(Rs)	38.9600	+0.035	350 - 850	39.0550	38.8800	-	-	-	-	-	-	-
Israel	(Shk)	3.5375	-0.0055	331 - 419	3.5426	3.5320	-	-	-	-	-	-	-
Japan	(Y)	129.875	-0.595	800 - 900	130.600	129.640	129.22	6.1	128.13	5.4	122.925	5.4	119.7
Malaysia	(M$)	3.6678	-0.0022	630 - 725	3.6800	3.5800	3.6683	0.5	3.6783	-1.1	3.8003	-3.6	-
New Zealand	(NZ$)	1.6738	+0.0042	729 - 748	1.6792	1.6695	1.6789	-2.2	1.6823	-2.0	1.7011	-1.6	-
Philippines	(Peso)	35.0950	-0.005	600 - 300	35.6000	34.9000	35.548	-15.5	36.49	-15.9	40.3815	-15.1	-
Saudi Arabia	(SR)	3.7506	-0.0002	505 - 506	3.7508	3.7503	3.7515	-0.3	3.7534	-0.3	3.7588	-0.2	-
Singapore	(S$)	1.6248	+0.0092	240 - 255	1.6290	1.6090	1.6268	-3.0	1.6343	-2.3	1.6448	-1.2	-
South Africa	(R)	4.8825	+0.014	810 - 840	4.8855	4.8615	4.9278	-11.1	4.9995	-9.6	5.2963	-6.5	-
South Korea	(Won)	1465.70	+123.3	570 - 570	1465.80	1370.00	-	-	-	-	-	-	-
Taiwan	(T$)	31.9780	+0.0735	610 - 950	32.0140	31.9250	31.989	-0.4	32.0105	-0.4	32.0905	-0.4	-
Thailand	(Bt)	42.3550	+0.555	800 - 300	42.6500	41.2000	42.65	-8.4	42.975	-5.9	45.105	-6.5	-

† SDR rate per $ for Dec 8. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 8: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

December 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3½	3⅞	3⅞	4⅛	6.00	2.75	-
France	3⅞	4⅛	3¾	3⅞	4⅛	4.60	-	3.30
Germany	3⅞	3⅞	3⅞	3⅞	4⅛	4.50	2.50	3.30
Ireland	6⅝	6⅝	6⅝	5⅞	5⅛	-	-	6.75
Italy	6⅝	6⅝	6⅝	5⅞	5⅞	7.75	6.25	6.17
Netherlands	3⅝	3⅞	3⅞	3⅞	4⅛	-	2.75	3.30
Switzerland	1¼	1⅝	1⅞	1⅞	1⅞	-	1.00	-
US	5⅛	6⅞	5⅞	5⅞	6	-	5.00	-
Japan	⅜	⅜	⅝	⅜	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	6	5⅞	6	6⅛	-	-	-
US Dollar CDs	-	5.20	5.44	5.57	5.74	-	-	-
ECU Linked Ds	-	4⅝	4⅛	4⅛	4⅝	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	4⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3⅞	3⅞ - 3⅞	4⅛ - 4⅛
Danish Krone	3⅞ - 3¾	3⅞ - 3⅞	3⅞ - 3¾	4⅛ - 3⅞	4⅛ - 4	4⅛ - 4⅛
German Mark	3⅝ - 3¼	3⅞ - 3⅞	3¾ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	4⅛ - 3⅞
Dutch Guilder	3⅜ - 3¼	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	4⅛ - 4
French Franc	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	4⅛ - 4⅛	4⅛ - 3⅞
Portuguese Esc.	5 - 4⅞	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	4⅞ - 4⅞	4⅞ - 4⅞
Spanish Peseta	5⅛ - 5	5⅛ - 4⅞	5 - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞
Sterling	7⅛ - 6⅞	7¼ - 7⅛	7⅜ - 7⅛	7⅞ - 7⅝	7⅞ - 7⅝	7⅞ - 7⅝
Swiss Franc	1½ - 1	1⅛ - ⅞	1⅞ - 1⅛	1⅞ - 1⅞	1⅞ - 1⅞	2⅛ - 1⅞
Canadian Dollar	3⅞ - 3⅞	3⅞ - 3¾	3⅞ - 3⅞	4¼ - 4⅛	4⅞ - 4⅞	4⅞ - 4⅞
US Dollar	5½ - 5⅜	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 5⅞
Italian Lira	6¾ - 5¾	6⅞ - 6⅞	6⅞ - 6⅛	6⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5¾
Japanese Yen	⅝ - ⅞	⅝ - ⅞	½ - ⅞	⅞ - ⅞	⅞ - ⅞	⅞ - 6½
Asian $Sing	4⅝ - 4½	6⅞ - 6	6⅝ - 6½	6⅞ - 6⅛	6⅛ - 5⅞	6¼ - 6

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF)Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.30	96.30	-	96.31	96.30	5,465	47,904
Mar	96.07	96.07	-	96.08	96.07	4,643	69,628
Jun	95.85	95.85	-	95.87	95.85	3,009	35,294

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.22	96.23	-	96.23	96.22	14882	250315
Mar	96.08	96.08	-0.01	96.09	96.07	30775	334167
Jun	95.86	95.86	-0.02	95.88	95.85	21656	314043
Sep	95.70	95.68	-0.03	95.70	95.67	15130	231132

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		96.23	-0.01			0	6248
Jan		96.34	-0.01			0	600
Feb		96.25	-0.01			0	133
Mar		96.15	-0.01			0	100

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.95	93.92	-0.04	93.95	93.91	14260	100358
Mar	94.72	94.71	-0.02	94.73	94.69	11935	127263
Jun	95.27	95.26	-0.02	95.28	95.25	5223	128025
Sep	95.42	95.40	-0.04	95.42	95.40	4394	76193

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.10	98.11	-0.09	98.14	98.09	3553	52436
Mar	98.06	98.02	-0.08	98.06	98.01	8583	52972
Jun	97.88	97.85	-0.06	97.88	97.85	3228	32688
Sep	97.70	97.69	-0.06	97.72	97.69	771	15786

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		99.17	-0.03			0	n/a
Mar		99.29	-0.05			0	n/a
Jun		99.33	-0.04			0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.45	95.46	-0.01	95.46	95.45	506	8558
Mar	95.40	95.39	-0.03	95.41	95.39	431	7097
Jun	95.38	95.36	-0.02	95.38	95.37	154	6283
Sep	95.33	95.31	-0.01	95.33	95.31	146	8072

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9375	0.18	0.98	1.52	0.01	0.02	0.01
9400	0.02	0.74	1.28	0.10	0.03	0.02
9425	0.01	0.52	1.04	0.34	0.06	0.03

Est. vol. total, Calls 2314 Puts 594. Previous day's open int., Calls 231535 Puts 142362

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.23	4.849	1.863	4746	5.465	19.64	494.9	409.6	21.18	3.951	1.642	3.842	2.702	350.9	2.450
Denmark	(DKr)	54.16	10	8.791	2.626	1.009	2570	2.960	10.64	268.0	221.8	11.47	2.140	0.889	2.081	1.463	190.1	1.327
France	(FFr)	61.61	11.37	10	2.987	1.147	2924	3.367	12.10	304.9	252.3	13.05	2.434	1.012	2.367	1.665	216.2	1.509
Germany	(DM)	20.62	3.808	3.347	1	0.384	978.7	1.127	4.051	102.1	84.46	4.367	0.815	0.339	0.792	0.557	72.37	0.505
Ireland	(I£)	53.69	9.913	8.715	2.603	1	2548	2.934	10.55	265.7	219.9	11.37	2.121	0.882	2.062	1.451	188.4	1.315
Italy	(L)	2.107	0.389	0.342	0.102	0.039	100	0.115	0.414	10.43	8.630	0.446	0.083	0.035	0.081	0.057	7.395	0.052
Netherlands	(Fl)	18.30	3.379	2.970	0.887	0.341	868.4	1	3.594	90.56	74.94	3.875	0.723	0.300	0.703	0.494	64.22	0.448
Norway	(NKr)	50.91	9.400	8.264	2.469	0.948	2416	2.782	10	252.0	208.5	10.78	2.012	0.836	1.956	1.376	178.7	1.247
Portugal	(Es)	20.21	3.731	3.280	0.980	0.376	959.0	1.104	3.969	100	82.76	4.279	0.798	0.332	0.776	0.546	70.91	0.495
Spain	(Pta)	24.42	4.508	3.963	1.184	0.455	1159	1.334	4.796	120.8	100	5.171	0.965	0.401	0.938	0.660	85.68	0.598
Sweden	(SKr)	47.22	8.718	7.665	2.290	0.880	2241	2.580	9.275	233.7	193.4	10	1.866	0.775	1.814	1.276	165.7	1.157
Switzerland	(SFr)	25.31	4.673	4.108	1.227	0.471	1201	1.383	4.971	125.2	103.7	5.360	1	0.416	0.972	0.684	88.82	0.620
UK	(£)	60.90	11.25	9.886	2.953	1.134	2890	3.328	11.96	301.4	249.4	12.90	2.407	1	2.340	1.646	213.7	1.492
Canada	(C$)	26.03	4.806	4.225	1.262	0.485	1235	1.423	5.113	128.8	106.6	5.513	1.029	0.427	1	0.703	91.35	0.638
USA	($)	37.01	6.833	6.007	1.795	0.689	1756	2.023	7.269	183.2	151.6	7.838	1.462	0.608	1.422	1	129.9	0.907
Japan	(Y)	28.50	5.261	4.625	1.382	0.531	1352	1.557	5.597	141.0	116.7	6.035	1.126	0.468	1.095	0.770	100	0.698
Ecu	-	40.81	7.536	6.625	1.979	0.760	1937	2.230	8.016	202.0	167.2	8.643	1.613	0.670	1.568	1.103	143.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5601	0.5594	+0.0003	0.5603	0.5585	22,821	59,609
Mar	0.5619	0.5624	+0.0004	0.5632	0.5613	28,414	38,956
Jun	-	0.5650	+0.0002	0.5650	-	37	4,153

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7669	0.7707	+0.0037	0.7714	0.7669	42,047	93,984
Mar	0.7772	0.7812	+0.0038	0.7819	0.7769	46,527	58,395
Jun	0.7906	0.7915	+0.0033	0.7915	0.7906	29	1,620

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6875	0.6864	-0.0002	0.6880	0.6863	17,432	32,583
Mar	0.6930	0.6938	+0.0002	0.6957	0.6924	22,213	22,151
Jun	-	0.7006	+0.0001	0.7006	-	25	1,316

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6474	1.6470	+0.0018	1.6490	1.6440	10,730	38,415
Mar	1.6400	1.6396	+0.0012	1.6420	1.6366	10,779	14,570
Jun	-	1.6330	+0.0014	1.6330	-	2	1,256

UK INTEREST RATES

LONDON MONEY RATES

Dec 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7⅛ - 5	7¼ - 7⅛	7⅞ - 7⅜	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞
Sterling CDs	-	-	7⅜ - 7⅜	7⅞ - 7½	7⅞ - 7⅞	7⅞ - 7⅞
Treasury Bills	-	-	7¼ - 7⅛	7⅜ - 7⅜	-	-
Bank Bills	-	-	7¼ - 7⅛	7⅜ - 7⅜	7⅜ - 7¼	-
Local authority deps.	7½ - 7	7¼ - 7⅛	7⅜ - 7⅜	7⅜ - 7½	7¾ - 7⅞	7⅞ - 7¾
Discount Market deps	7¼ - 7⅛	7¼ - 7	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Dec 5. 7.0553pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 26, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.801pc. Finance House Base Rate 7½pc from Dec 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.32	92.31	+0.01	92.33	92.30	17847	147290
Mar	92.28	92.31	+0.05	92.32	92.28	37254	137232
Jun	92.38	92.42	+0.07	92.44	92.38	37520	104377
Sep	92.49	92.54	+0.08	92.56	92.49	22559	81012
Dec	92.64	92.70	+0.08	92.72	92.64	14132	75854

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0.07	0.17	0.32	0.01	0.11	0.15
9250	0	0.05	0.17	0.19	0.24	0.25
9275	0	0.01	0.08	0.44	0.45	0.41

Est. vol. total, Calls 15445 Puts 7151. Previous day's open int., Calls 243010 Puts 238440

EMS EUROPEAN CURRENCY UNIT RATES

Dec 9	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. Ind.
Ireland	0.798709	0.760088	+0.000011	-4.84	7.83	33
Italy	1906.48	1934.25	-0.71	1.46	1.14	-11
Finland	5.85424	5.95951	-0.01364	1.80	0.80	-12
Spain	163.826	166.899	-0.106	1.88	0.73	-13
Portugal	197.398	201.673	-0.12	2.17	0.44	-15
France	6.45863	6.61124	-0.00414	2.36	0.25	-20
Denmark	7.34555	7.52312	-0.00416	2.42	0.19	-17
Germany	1.92573	1.97564	-0.00103	2.59	0.02	-26
Netherlands	2.16979	2.22628	-0.00115	2.60	0.01	-19
Belgium	39.7191	40.7555	-0.0196	2.61	0.01	-19
Austria	13.5485	13.9029	-0.0046	2.62	0.00	-19
NON ERM MEMBERS						
Greece	295.269	310.314	+0.407	5.10	-2.36	-
UK	0.793103	0.671225	+0.002297	-15.37	21.25	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.640	0.85	2.00	2.51	0.38	1.68	2.51
1.650	0.38	1.53	2.10	0.90	2.22	3.05
1.660	0.17	1.15	1.70	1.65	2.69	-

Previous day's vol., Calls 3,176 Puts 1,261 . Prev. day's open int., Calls 33,750 Puts 28,164

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.555	0.49	0.99	1.30	0.10	0.46	0.70
0.560	0.19	0.70	1.02	0.29	0.68	0.92
0.565	0.08	0.48	0.79	0.59	0.97	1.19

Previous day's vol., Calls 420 Puts 1,970 . Prev. day's open int., Calls 11,378 Puts 35,195

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.06	94.07	+0.01	94.08	94.06	48,412	384,453
Mar	94.04	94.06	+0.02	94.07	94.04	111,135	469,505
Sep	94.00	94.01	+0.01	94.03	93.99	87,314	387,023

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.89	94.90	+0.03	94.90	94.89	333	3,676
Mar	94.93	94.95	+0.02	94.96	94.93	132	6,414
Jun	-	94.92	+0.01	94.92	-	8	927

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9600	0.23	0.12	0.14	0.16	0	0.04	0.06	0.08
9625	0.02	0.01	0.04	0.04	0.04	0.18	0.21	0.21
9650	0	0	0.01	0.01	0.27	0.42	0.43	0.43
9675	0	0	0	0	0.52	0.67	0.67	0.67

Est. vol. total, Calls 3600 Puts 5847. Previous day's open int., Calls 416264 Puts 362389

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9825	0.01	0.07	0.07	0.15	0.30	0.47
9850	0	0.03	0.02	0.39	0.51	0.67

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2738 Puts 3019

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE: EL NINO

FT writers look at the recent El Niño weather developments – and find there are still more questions than answers

■ **OVERVIEW** – By Nikki Tait in Chicago and Gary Mead in London

Nature's errant child blows hot and cold

From parched river-beds in Papua New Guinea to smoke haze over Kuala Lumpur, the current El Niño weather pattern has been blamed for all manner of ills. Yet scientists and meteorologists concur that different El Niños can have highly contrasting effects.

Already, from a commercial standpoint, grain traders have been somewhat wrong-footed by the present El Niño, the earliest signs of which were detected in March.

Many expected parts of Australia and South Africa to move into drought in the latter half of 1997. Instead, both countries saw above-normal rains in September, although conditions have become drier recently. Yet the picture in both countries is complicated – some parts have been suffering from drought, while others report normal rainfall. "There's no set pattern," said Steve Bruce, a grain trader with ED & F Man at the Chicago Board of Trade.

Past El Niños – named after the Spanish term for the Christ child because its full impact is usually felt around Christmas – have had serious global impact. The last, and biggest, this century was in 1982-83, when an estimated $13bn of damage was wrought on crops and property.

Flooding in parts of Latin America and the west coast of the US, and drought in south-east Asia, parts of Australia and South Africa tend to be the consequence of severe El Niños. The west coast of the US can suffer heavy rainfall and a greater hurricane risk.

Earlier this year, scientists realised that the current El Niño seemed exceptional in two ways. First, it developed with particular force and speed. In June the surface temperature of the Pacific Ocean off South America had risen by more than 5 degrees C, a higher temperature, reached much earlier, than in most previous El Niños.

This abnormally high temperature continued into the second half of the year. "Temperatures we're reading now are typically seen at the peak," said Weather Express, a private forecasting agency in Nebraska, in September. Normally, El Niños take between nine and 12 months to reach their zenith.

Second, the geographical location of the anomalous warming has been slightly unusual, being particularly close to South America.

But although all the signs indicate the current El Niño to be exceptionally severe, this is an area of scientific research where no precise cause and effect can be detected. Instead, the scientific experts talk of correlations and associations.

GNI, the commodity brokers, have just published research which attempts to cast a more sceptical light on the latest El Niño. "It is a simple mistake to conclude that this is the strongest El Niño ever, and as the previous strongest on record caused billions of dollars of damage, this one should therefore cause even more," they say. "It may, but it is no certainty."

The bottom line is that the world has been alerted more quickly to a developing El Niño than in the past – but that the most severe impact of this one is yet to be felt. Certainly the most optimistic recent forecast – from a UN-sponsored climate research unit – sees this El Niño persisting through until March.

Australasia

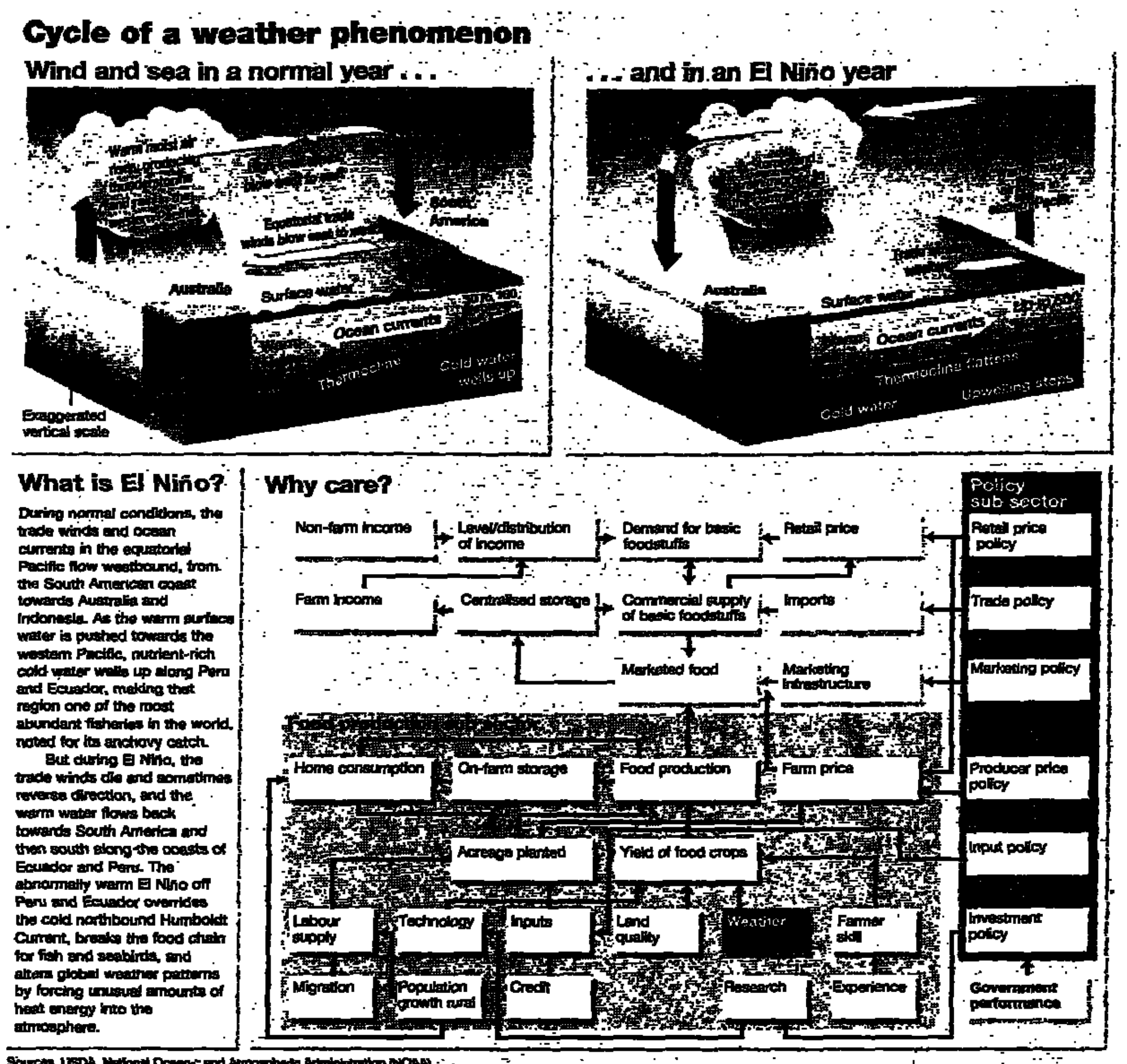
In Australia, the Australian Bureau of Agriculture and Resource Economics (Abare) has cut its forecast for wheat exports for the year to September 1998 to 11.7m tonnes, against its previous forecast of 13.2m tonnes. This compares with the 19.2m tonnes exported in 1996-97, when it produced a record 23.7m tonnes. In mid-September Abare forecast A$600m (US$402m) of lost exports, and halved its forecast for Australia's total commodity export growth in the year to July 1998 to 2 per cent.

Australia is providing a good example of El Niño's unpredictability; throughout this year Abare's crop estimates have swung wildly, as drought has been succeeded by heavy rains, only to be followed by more drought.

East coast farmers experienced lower than average rainfall for the current growing season overall, but widespread rains since June seem to have averted potential crop disasters. South Australia and Victoria had to dry-plant their crops, but the later rains helped keep crops growing. Western Australia, less prone to drought, is still poised for a bumper harvest. Rhonda Treadwell, at Abare, now expects the current El Niño to be less severe for Australian farmers than the one in 1982-83, when crop yields fell to less than half the average.

But lower-than-average rainfall is likely to polarise quality, resulting in a wider differential between feed-grain and grain for human consumption. Income from livestock may also rise in the short term, as farmers offload stock to cap feed costs, but this could have longer-term implications as it takes time to rebuild herds.

Cycle of a weather phenomenon



Sources: USDA, National Oceanic and Atmospheric Administration (NOAA)

Papua New Guinea is experiencing its worst drought in 50 years; the government has announced $14m of emergency relief. This is estimated to affect 1m people – a quarter of the population. The drought has seriously lowered water levels in the Fly River, preventing shipping of copper concentrate from the Ok Tedi mine, owned by BHP.

South Africa

South Africa's experience of this El Niño has been extremely patchy. Recent rainfall over parts of the east and north of the country has encouraged sugar and maize farmers to believe that it is either weaker than expected – or has perhaps even ended.

Yet in parts of the western Cape some farmers have recently reported the worst drought for 40 years, with agricultural production there being down by as much as 40 per cent.

Maize farmers have been particularly badly hit and some have said they fear losing as much as half their annual crop, which with normal rainfall is worth around R5bn ($1.02bn). The National Maize Producers Organisation has advised farmers to plant late in the season, to avoid drought conditions between December and March.

According to a report this week from the US agricultural attaché in Pretoria, El Niño's effect has so far been minimal, but the real drought is only expected in early 1998. "The expected drought will not affect the wheat crop currently being harvested," says the report, "but will put the next crop to be planted in the summer rainfall areas in jeopardy."

If the drought materialises in early 1998 the most likely outcome is that farmers will cut back on planted acreage. In 1992, during the last severe drought, only some 20 per cent of the normal area planted in the Free State – the wheat bread basket of the country – was planted. The latest official estimate of the country's 1997-98 wheat crop is for slightly more than 2.31m tonnes, 11.9 per cent down from previous forecasts.

Anxiety over El Niño, coupled with a general shortage of white maize, sent commodity prices in Johannesburg surging from R480 per tonne in June to R760 per tonne by mid-September, although they have since retreated. Demand for South African stocks of white maize from drought-stricken states further north in Africa is expected to push prices higher.

If a shortage does materialise, it will highlight the new role of the South African Futures Exchange in establishing maize prices – following the abolition of the Maize Board, which had statutory powers to control prices. However, the impact of El Niño will probably be confined to white maize, which is less commonly planted than the yellow variety and generally used as a staple food in parts of Africa and South America. There has been no surge in local demand for yellow maize, which is grown widely in the Americas and used mainly for animal feed.

The Americas

In the US, the likely impact of the current El Niño is still an open question. The 1997 harvest was particularly strong, with a record soyabean crop and corn production also at high levels. Wheat production was 2.51bn bushels, up from 2.29bn last year; maize was 9.27bn bushels (9.29bn); soyabeans were 2.75bn bushels (2.38bn).

Mild conditions in the grain belt, as winter approached, were helpful, and the absence of hurricanes has spared Florida's citrus producers, although they are already burdened with a vast glut of fruit. An expected milder than average winter could also reduce heating oil demand, thus impacting on prices.

But California could yet face severe floods. Earlier this autumn Hurricanes Linda and Nora were a taster of the effects of El Niño. Although both eventually pulled their punches, concern over potential damage to California's large cotton crop and certain vegetable produce, brought temporary price fillips. More recently, last weekend's storm system was blamed directly on El Niño although it, too, did not cause great damage.

El Niño worries Brazilians more for its social impact than its effect on crops. The signs are that this year's will repeat earlier patterns, producing severe winter flooding in the south and an elongated drought in the arid north-east, extending the dry season from the fourth quarter of 1997 into the second quarter of 1998. During the El Niño of 1982-83 flooding forced 400,000 people from their homes in the south; the tally so far this year is 19,000.

But of the country's leading agricultural exports – soya, coffee, sugar and orange juice – only soya has so far faced any threat, and it has escaped much harm.

The centre-west region, which produces 40 per cent of Brazil's soya, suffered an El Niño-induced dry spell in November which delayed the first crop, but rains picked up later in the month and the second crop is benefiting from above average rains.

In the other big soya region in the south, El Niño has timed its effects well. Heavy rain helped the first crop (although it resulted in poor quality wheat, which precedes soya), a brief dry spell made harvesting easy, and it is now raining again for the second crop.

In São Paulo state – which produces oranges, sugar and coffee – the pattern of rainfall tends to be more regular during El Niño years, if anything, a benefit to farmers. Throughout the south-east, coffee plants and sugar cane are enjoying good levels of rainfall.

"For summer crops grown in the south-east, the more rain there is, the better," said Marcos Massari of Somar, a company of weather watchers. "The big problem from El Niño, apart from its social effects, is when it causes heavy wind, rain and hail storms which damage crops, but that hasn't happened yet this year."

Problems could come later, however, if current predictions prove correct and heavy rains continue into the harvest season in March to May next year. That would hit cotton producers especially hard, but could also cause severe problems for the coffee harvest. Soya and maize would also be affected, although less so.

In 1996-97, Brazil produced about 26m tons of soya, and next year's crop is still estimated at 28.5m tons, mostly because attractive soya prices will encourage farmers to move to soya from maize.

Indeed, with other producers facing much more serious consequences, El Niño could leave Brazilian producers unscathed to benefit from higher worldwide prices.

Additional reporting by Mark Ashurst in Johannesburg, Elizabeth Robinson in Sydney and Jonathan Wheatley in São Paulo.

■ **MARKETS**

Nervous traders expect peak next year

What does El Niño add up to for the world's commodity markets? There has been increased nervousness – affecting grains, cocoa and coffee, for example – and traders suggest that this, coupled with speculative activity, may have boosted futures volumes. Nikki Tait and Gary Mead write.

The Chicago Board of Trade, the world's largest futures market, has said that it expects "heightened use" of commodity futures, with El Niño having "possibly a significant impact on crop yields and commodity prices".

The Kansas City Board of Trade, a small exchange which is dominated by wheat contracts, also saw record volumes this summer.

Nevertheless, while day-to-day price movements have certainly reflected speculation concerning El Niño's impact, the phenomenon has yet to become the dominant factor for any of the leading commodities.

In grains, receding concerns over Australian exports have refocused attention on non-El Niño factors, such as the US harvest or Chinese demand.

Judy Ganes, analyst at Merrill Lynch, has pointed out that the West African region has had sufficient rainfall for its all-important cocoa crop.

She has noted that while some cocoa producers in Asia have suffered drought, and Latin American producers have seen some turbulent weather, the early alarm bells sounded over production in the Ivory Coast were misleading.

The Ivory Coast, the world's biggest cocoa producer, is again likely to achieve a bumper harvest in 1997-98 – though 1998-99 might be a different tale.

There is also little cause for immediate concern over coffee production, according to Ms Ganes. "There's been rain in central America, and in Indonesia, so some relief," she said. The earlier drought will still probably dent Indonesia's robusta coffee crop, but robusta is not currently in tight supply. "It's down, but nothing too serious," Ms Ganes added.

All this could change at short notice. Looking forward, most forecasters still think the pattern will peak early next year, although its rapid onset makes this harder to predict – and six months is a long time in commodities.

There has been speculation that any intensification of climatic effects which drives up commodity prices generally, would produce a knock-on effect for inflation data and, by implication, bond prices. However, deflation stemming from the Asian currency problems could counter this effect.

As Pat Arbor, the chairman of the Chicago Board of Trade, puts it: "We live in a sensitive environment."

Meanwhile, some ramifications from the current El Niño seem likely to stretch well into 1998. There are already concerns that the 1998 palm oil harvest in Asia will be dented, stimulating demand for substitute soyabean oil imports.

■ **RISK MANAGEMENT** – By Christopher Adams in London

Vulnerable insurers throw statistics to the wind

El Niño has exposed startling deficiencies in the traditional methods used by insurers to calculate risk, leaving the industry vulnerable to billions of dollars in losses which it cannot predict.

Insurance companies usually determine their exposure to natural catastrophes such as earthquakes and hurricanes by looking at financial losses they have suffered in the past.

But the effects of El Niño are so unpredictable that statistical analysis is inadequate on its own. "Most historical records stretch back only a few centuries, and records are often inaccurate," says the Atlantic Global Change Institute, which has spent several years investigating the El Niño phenomenon.

Instead, the institute argues that insurers will have to employ so-called "risk modelling" techniques which use powerful computers and sophisticated software to predict what effect the periodic warming of waters in the eastern Pacific has on weather in other parts of the world.

Some are trying. Eleven insurance companies, several of them based in Bermuda, the offshore centre for the catastrophe reinsurance industry, are spending $1.1m a year to understand how hurricanes form and the probability of them striking land. With the help of Professor William Gray at the University of Colorado, they have begun to assess the influence which El Niño exerts on the frequency and strength of hurricanes.

Prof Gray uses constantly updated information on rainfall in west Africa, sea surface temperatures across the Caribbean and the behaviour of winds in the upper atmosphere. In the past, El Niño has led to fewer hurricanes in the Atlantic basin. This year, Prof Gray was forced to revise his own predictions for the hurricane season because of El Niño and there have been few big storms in the Caribbean.

Several cyclones have, however, slammed into the Pacific coast of Mexico, another supposed anomaly caused by El Niño. Here, the insurance industry is protected by its relatively low exposure. So far, the US west coast, where coverage is much higher, has not suffered the full force of an El Niño-inspired storm. Heavy rainstorms last weekend in California, the first officially acknowledged swipe, dropped several inches of water on Los Angeles, but have yet to wreak the kind of havoc insurers dread.

Munich Re and Swiss Re, the world's biggest reinsurers, have also begun investing in research and development to improve their understanding of weather patterns. But they have so far been able to make only vague assessments of what impact El Niño will have. Few are making big pricing adjustments to policies covering catastrophes.

"If you know how El Niño affects the probability of hurricane landfall in Florida, that's something you can use," said US-based Employers Re. "We're learning as much as we can, but it's probably premature to make a lot of high-risk decisions on the state of El Niño."

But Ernst Rauch, a catastrophe perils expert at Munich Re, warns that there are exceptions to the rule. During the last El Niño cycle in the early 1990s, Hurricane Andrew struck the east coast of the US, causing $15.5bn of insured damage.

"Assessing cost makes no sense," said Dr Matthias Weber at Swiss Re. "Hazards will increase in some areas and decrease in others. The net effect will be small. We prefer to keep prices stable."

■ **INDONESIA** – By Sander Thoenes in Jakarta

Double jeopardy of droughts and fires

The Indonesian archipelago has probably suffered more than other parts of the world. Rains started in late November, two months overdue and still sporadic, and effects of the drought have been exacerbated by forest fires that may have consumed 1.7m hectares.

For much of autumn, blazing trees and smouldering peat wrapped the country and five of its neighbours in a choking smog. Several hundred people in Irian Jaya have starved or died of diseases caused by a lack of clean drinking water.

Damage estimates are still very approximate, but most planters agree that the drought will do more harm than the fires. One palm oil plantation owner said that fires had damaged only a small percentage of the total 2.2m hectares under cultivation; he predicted that drought and the smog, which blocks sunlight, would have a much more serious impact on the harvest late next year.

Indonesia's crude palm oil production had been expected to rise to 5.2m tonnes in 1997 compared with 4.5m tonnes last year. Rubber production levels are likely to be hit as well, but the most serious impact is on coffee. Indonesia is the world's biggest producer of robusta coffee beans; if the most recent forecast of a 40 per cent fall in its coffee harvest comes to pass, retail prices will inevitably be affected.

Indonesia's harvests have failed in many regions, even in fertile Java. Chairil Anwar Rasahan, director-general at the agricultural ministry, predicted earlier this week that production of food crops was projected to fall by between 1.3 per cent and 5.6 per cent from the previous year. Indonesia faces a shortfall of nearly 3m tonnes of unhusked rice on its 1997 target of 52m tonnes, he said.

AP

Plantation fires wrapped Indonesia in choking smog

Officials had said earlier that the country's rice stocks could last until March without imports but traders say it has already started buying Thai rice. Indonesia has had to import rice in recent years when the drought was less severe.

Corn production is expected to decline 1.3 per cent to 9.2m tonnes. Maize traders said that Indonesian feed mills, which buy only 25 per cent of their supply domestically in a good year, had ordered growing amounts of Chinese and Argentine corn, even though a 47 per cent devaluation of the rupiah has boosted prices.

Soyabean production is expected to fall 3.8 per cent to 1.5m tonnes, or 28.1 per cent less than the target for the year.

COMMODITIES AND AGRICULTURE

Price of gold drops to lowest for 18 years

MARKETS REPORT

By Kenneth Gooding and Gary Mead

The price of gold yesterday sank to its lowest level for 18 years. Analysts said there was no sign of any immediate recovery or any reason why there should be one.

The gold price was "fixed" in London yesterday afternoon at $283.25 an ounce, the lowest since August 1979.

By the close of trading it had slipped further to $281.15, down $6.05 an ounce from Monday's close.

Rhona O'Connell, analyst at T. Hoare, the specialist broker, pointed out that $283 an ounce in 1979 was equivalent to $572 in 1997 terms, assuming an annual 4 per cent rate of inflation.

Gold has lost nearly one-quarter of its value this year, or nearly $90 an ounce, as some commercial banks capitalised on fears about sales of gold by central banks and drove down the price by selling short - selling gold they did not own in the expectation that they could buy it at a lower price before having to deliver.

Traders said the banks would next attempt to push the price down through $280.

At the present price virtually no gold mining company is making an accounting profit, although many have protected themselves by hedging.

According to the Gold Fields Mineral Services consultancy, the western world gold industry's average cash operating costs in the second quarter were $267 an ounce but full costs are usually $40 to $50 above this level.

GFMS said South Africa had the highest cast costs, at $318 an ounce, while Canada and the US had the lowest, at $221 and $222 an ounce respectively.

Oil prices slipped further yesterday, with the world benchmark, Brent blend for January down 17 cents to $17.98 a barrel on the International Petroleum Exchange in London. On the New York Mercantile Exchange crude in later trading was 15 cents lower at $18.69 a barrel.

Figures from the American Petroleum Institute (due late yesterday) were expected to add further depression by revealing that US crude stocks may have risen by more than 4.3m barrels last week, to a total of around 322m barrels.

On the London International Financial Futures Exchange both coffee and cocoa ended marginally higher in lacklustre trading, with March cocoa up £1 to £1,069 a tonne and March coffee ending at $1,755 a tonne, $13 higher.

However on the Coffee, Sugar and Cocoa Exchange in New York the leading coffee contract, for March, rallied to its highest in six months, at 181.45 cents a pound, before coming down later to 178.25 cents, up 3.90 cents.

Backing for Sase project

By Kenneth Gooding, Mining Correspondent

Australia's federal government yesterday put its support behind the A$1bn (US$671m) South Australian Steel and Energy (Sase) project, which analysts suggest will produce the world's lowest cost pig iron early next century.

The project brings together the 15bn tonnes of coal resources in the Arckaringa Basin controlled by Meekatharra Minerals, an Australian exploration company; at least 1bn tonnes of iron ore identified by the South Australian Mines and Energy Department's recent exploration initiative; and proprietary Ausiron furnace technology owned by Ausmelt, the engineering group.

Krakatau Steel, the state-owned Indonesian group, has taken a stake in the venture and will buy some of the pig iron, a substitute for scrap in steel making.

Production costs will be low because the raw materials are in the same area - the project will generate its own power and sell the surplus. A rail link between Alice Springs and Adelaide runs close by, so transport costs will also be low.

Broken Hill Proprietary, which owns the port of Whyalla, has agreed to make room for the 2.5m tonnes a year of pig iron that initially will be exported to Asia. This should add about A$500m to Australia's annual export earnings.

The federal government said yesterday it had approved A$6.5m of development grant funding for the project. The money will go towards an iron ore demonstration plant at Whyalla.

Neill Arthur, Meekatharra's director and general manager, and deputy chairman of Sase, pointed out at a meeting with fund managers and analysts in London yesterday that an Ausmelt pilot plant had been operating for five years.

The demonstration plant would take about 10 months to construct, would be run for six months and would allow more accurate measurement of operating parameters.

Results would provide the basis for the final design of *the planned commercial* plant to be built south of Coober Pedy in South Australia, starting in 1999-2000.

Meekatharra has 28 per cent of Sase and rights to provide 100 per cent of the coal and to manage mining and power generation. Ausmelt also has 28 per cent; Krakatau, 15 per cent; and Maritosa Coalindo, also of Indonesia, 15 per cent.

Terrorist threat to Assam's tea growers

Tea growers in India's northern state of Assam face a dilemma. They need government help to increase output and secure their future. But in order to attract investment, they must find a way to deal with militant groups that terrorise local industry.

Assam is ideal for growing high-quality tea. Even though the average age of tea bushes in the state is more than 55 years, the productivity in many tea zones is well over 2,000 kg a hectare, compared with a national average of about 1,790 kg.

But unless money is spent to rejuvenate bushes, industry officials say productivity - and quality - will start to decline over the next four our five years.

According to a recent report, Assam will need Rs33bn ($907m) over 10 years to raise tea production to 600m kg from the 430m kg produced in 1996.

It is because tea is the largest industry in Assam that it has become the main target for militant groups. Since 1990, *10 tea estate* managers have been killed and 40 kidnapped. In most cases, tea companies have paid big ransoms for their employees' freedom.

"The industry has to contend with three separatist movements," said a tea industry official. "The United Liberation Front of Assam is virtually running a parallel administration in the south bank of Brahmaputra River. The National Democratic Front of Bodoland runs over the north bank of the river, while National Socialist Council in Nagaland strikes terror in Assam's Sibsagar district."

Tea growing estates cover vast areas that are poorly served by roads and it is almost impossible for the state to guarantee security for estate managers. Militant groups also cross to neighbouring Bhutan to escape the security forces.

As a result of the attacks, the Indian Tea Association has raised its own protection force. The Assam Tea Plantations Security Force now numbers nearly 2,500 and is used are used by about 90 of the 1,012 estates.

However, industry officials says the ATPSF is no match for the militants and their modern weapons.

During a visit to Assam this week, I.K. Gujral, India's prime minister, called for better co-ordination between federal and state security agencies to provide security cover for the tea and oil industries.

Another way in which the tea growers have tried to cut terrorism is by funding social welfare programmes in an effort to improve living conditions for local people.

However, the Assam government complains that some of the bigger tea groups are giving "financial and other kinds of aid" to the militants in return for freedom from attacks.

Brafula Mahanta, chief minister of Assam, has claimed that "the common man does not benefit from such programmes. They benefit only the militants," he said.

While the Assam government interrogates tea groups on the industry's funding of extremist groups, India's federal government admits that the Unified Command of the army and Assam police, created to tackle the militancy in the state, "needs *improvement and refinement. Its* intelligence network leaves much to be desired," according to a government official.

"We are in a Catch-22 situation," a tea industry official says. "A section of the industry refuses to pay money to the militants, even though the front-line managers remain vulnerable to attack. What it has done instead is to be build hospitals, schools and roads to earn the goodwill of local people. That goodwill is our protection. We feel sad when our motive is questioned."

Tea growers have also been criticised for lack of investment in their own industry. Mr Mahanta has complained that growers have done little to bring new land under tea production, or to improve the productivity of estates in the past decade.

"The owners stopped visiting Assam a long time ago," an industry official says. "We depend entirely upon the reports sent by the managers posted in the estates. Like any other plantation industry tea requires constant monitoring by the owners. But we are afraid of setting our foot on our estates. A situation like this cannot promote investment."

Kunal Bose


Terry Kirk

Trouble brewing: if money is not spent, quality will decline

Unocal strikes gas off Vietnam

By Jeremy Grant in Hanoi

Unocal, the Los Angeles-based energy company, said it has struck gas off the coast of Vietnam, its first discovery since it started hunting for hydrocarbons in the country last year.

The find was made near the Gulf of Thailand, in a prospect known as Block B about 480km south-west of Vung Tau. "It's promising, but it's too early to determine the commerciality of the project," said Tran Toan, chief representative of Unocal Vietnam.

Unocal last year signed a three-year production sharing contract with state oil agency PetroVietnam, with the US company holding a 45 per cent share, Repsol of Spain with 30 per cent and Moeco Vietnam Petroleum, a unit of Mitsui Oil Exploration, holding 25 per cent.

Hanoi is pinning its hopes for energy development on gas, after a decade of exploration for oil by a string of foreign companies yielded little of commercial value.

Industry analysts say the area around the Unocal find could contain significant amounts of gas. Hanoi estimates that the Malay Basin, which includes Block B, contains 3,000bn to 5,000bn cubic feet of gas reserves.

Fina of Belgium is exploring in three blocks adjacent to Unocal and said yesterday a number of small gas finds recently could be commercial. It said the company was working with Hanoi on a master-plan for gas development in the southern Mekong Delta, on the south-western tip of Vietnam.

Gas would be piped ashore to fire power plants. Enron of the US said last week it had proposed a $2bn project for Soc Trang province, on the southern tip of the Mekong Delta.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1553.5-4.5	1574.5-5.0
Previous	1548.5-49.5	1568.5-69.0
High/low		1583/1572
AM Official	1552.5-53.0	1573.5-74.0
Kerb close		1582-3
Open int.	260,769	
Total daily turnover	83,951	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1417-22	1440-42
Previous	1417-22	1437-40
High/low		1447/1438
AM Official	1420-25	1443-44
Kerb close		1445-50
Open int.	7,026	
Total daily turnover	1,446	

■ LEAD ($ per tonne)

Close	516.5-7.5	533-4
Previous	514.5-15.5	532-32.5
High/low		538/530
AM Official	515-16	530-30.5
Kerb close		538-9
Open int.	32,602	
Total daily turnover	8,204	

■ NICKEL ($ per tonne)

Close	5975-80	6070-75
Previous	5935-45	6030-35
High/low		6100/6035
AM Official	5955-65	6045-50
Kerb close		6100/05
Open int.	60,582	
Total daily turnover	17,401	

■ TIN ($ per tonne)

Close	5595-600	5460-65
Previous	5730-40	5570-75
High/low		5570/5435
AM Official	5660-65	5515-20
Kerb close		5440-45
Open int.	14,733	
Total daily turnover	5,491	

■ ZINC, special high grade ($ per tonne)

Close	1099-101	1122-24
Previous	1093-94	1117-18
High/low		1132/1120
AM Official	1096-96.5	1120-21
Kerb close		1127-8
Open int.	64,782	
Total daily turnover	18,893	

■ COPPER, grade A ($ per tonne)

Close	1774-5	1804-5
Previous	1768-70	1799-801
High/low		1832/1802
AM Official	1787-88	1816-17
Kerb close		1814-5
Open int.	161,673	
Total daily turnover	47,755	

■ LME AM Official £/$ rate: 1.6448
LME Closing £/$ rate: 1.6460

Spot: 1.6530 3 mths: 1.6463 6 mths: 1.6390 9 mths: 1.6331

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	80.60	-0.25	80.85	80.10	754	1,700
Jan	81.20	-0.30	81.50	80.80	187	2,850
Feb	81.85	-0.30	82.25	82.00	72	1,807
Mar	82.25	-0.30	82.50	81.65	3,867	32,765
Apr	82.70	-0.35	83.00	82.95	45	1,467
May	83.10	-0.30	83.40	82.80	136	4,700
Total					5,622	64,532

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	283.40-283.80		
Opening	285.40-285.80		
Morning fix	285.50	173.324	415.403
Afternoon fix	283.25	171.979	412.724
Day's High	288.20-286.60		
Day's Low	281.25-281.65		
Previous close	287.60-288.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.17	6 months	4.16
2 months	4.16	12 months	4.16
3 months	4.16		

Silver Fix	p/troy oz.	US cts equiv.
Spot	327.00	538.25
3 months	329.75	538.90
6 months	329.70	538.25
1 year	331.20	536.90

Gold Coins	$ price	£ equiv.
Krugerrand	287.5-289.5	174-176
Maple Leaf	-	-
New Sovereign	70-73	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	282.8	-5.1	286.2	281.5	195	900
Jan	283.6	-5.1	283.3	283.2	2	8
Feb	284.9	-5.1	290.2	283.3	12,726	112.4k
Apr	286.7	-5.1	291.2	285.0	390	11,930
Jun	288.7	-5.2	292.3	287.0	535	11,902
Aug	290.8	-5.2	291.9	290.6	19	4,600
Total					13,987	197,887

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	375.9	-0.8	378.0	369.5	984	10,463
Apr	373.9	+0.7	374.5	368.0	228	3,014
Jul	370.9	+0.7	370.5	366.0	13	131
Total					1,225	13,608

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	209.50	-	210.00	209.00	19	301
Mar	206.50	-	208.50	205.50	136	3,763
Jun	203.00	-	-	-	82	230
Sep	200.00	-	-	202.00	-	4
Total					158	4,298

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	539.5	+6.0	539.0	532.0	250	999[illegible]
Jan	541.3	+6.0	536.0	536.0	4	3[illegible]
Mar	544.8	+6.3	546.0	533.0	11,556	64,257
May	544.8	+3.8	545.5	538.0	487	6,22[illegible]
Jul	544.8	+3.0	546.0	538.0	483	5,47[illegible]
Sep	545.3	+2.4	-	-	10	6[illegible]
Total					13,647	98,5[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.68	-0.15	18.89	18.62	24,596	[illegible]
Feb	18.93	-0.16	18.13	18.89	12,734	[illegible]
Mar	19.09	-0.14	19.22	19.02	3,746	[illegible]
Apr	19.21	-0.13	19.36	19.18	1,268	[illegible]
May	19.32	-0.11	19.40	19.28	651	[illegible]
Jun	19.34	-0.13	19.43	19.30	1,530	[illegible]
Total					46,128	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.00	-0.15	18.18	17.95	9,3[illegible]	[illegible]62
Feb	18.10	-0.11	18.24	18.02	10,7[illegible]	[illegible]65
Mar	18.13	-0.06	18.24	18.09	3,[illegible]	[illegible]014
Apr	18.13	-0.07	18.26	18.10	4,[illegible]	[illegible]149
May	18.10	-0.09	18.25	18.09	1,[illegible]	[illegible]435
Jun	18.10	-0.08	18.27	18.06	2,[illegible]	[illegible]924
Total						n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	53.15	-0.37	53.70	53.05	[illegible]	54,229
Feb	53.80	-0.25	54.25	53.60	[illegible]	30,291
Mar	53.75	-0.20	54.10	53.60	[illegible]	16,903
Apr	53.00	-0.25	53.30	52.95	[illegible]	8,413
May	52.40	-0.15	52.55	52.30	[illegible]	6,553
Jun	52.20	-0.10	52.35	52.07	[illegible]	6,698
Total					[illegible]	142,121

■ GAS OIL IPE ($/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	163.50	-1.75	165.00	163[illegible]	[illegible]885	11,688
Jan	164.50	-2.00	166.00	16[illegible]	[illegible]113	28,961
Feb	165.00	-1.25	166.00	16[illegible]	[illegible]824	15,791
Mar	164.50	-1.50	165.50	16[illegible]	[illegible]690	11,379
Apr	164.25	-1.00	164.75	1[illegible]	433	4,585
May	164.00	-0.75	164.00	1[illegible]	140	2,810
Total					n/a	n/a

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Jan	16.950	-0.340	17.200	[illegible]	350	3,465
Feb	17.100	-0.500	17.450	[illegible]	250	3,145
Total					600	12,585

■ NATURAL GAS NYMEX (10,000mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	2.470	+0.048	2.48[illegible]	[illegible]	19,624	46,287
Feb	2.435	+0.042	2.4[illegible]5	[illegible]	10,184	28,091
Mar	2.340	+0.030	2.3[illegible]	[illegible]	2,695	20,765
Apr	2.235	+0.025	2.2[illegible]	[illegible]	1,367	11,482
May	2.205	+0.012	2.2[illegible]	[illegible]	910	9,499
Jun	2.200	+0.007	2.2[illegible]	[illegible]	1,427	8,409
Total					39,504	208,292

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	56.20	-0.76	[illegible]	56.10	11,376	33,281
Feb	56.65	-0.61	[illegible]	56.50	5,641	19,268
Mar	57.05	-0.52	[illegible]	57.00	1,850	11,310
Apr	59.75	-0.37	[illegible]	59.75	815	8,875
May	59.55	-0.37	[illegible]	59.50	1,260	8,930
Jun	59.25	-0.12	[illegible]	59.00	820	6,569
Total					22,733	98,470

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	[illegible]1.60	-0.40	82.00	81.60	136	1,020
Mar	83.60	-0.40	84.50	83.60	123	2,933
May	85.60	-0.40	86.35	85.60	181	3,697
Jul	87.60	-0.40	-	-	-	413
Sep	82.75	-0.50	-	-	-	20
Total					447	8,894

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	344.50	-2.25	349.50	346.00	1,250	1,321
	359.75	-2.75	365.00	359.50	11,284	53,937
	366.25	-3	372.00	365.50	793	11,253
	371.00	-3.25	375.75	371.00	1,056	18,371
	377.00	-1.5	-	-	80	422
	387.00	-2	389.50	387.00	44	3,391
					14,433	88,738

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	271.00	-2.25	274.50	270.50	5,227	18,819
	281.75	-2.25	285.00	281.50	40,565	183,745
	289.00	-2	291.75	288.50	3,551	44,201
	293.50	-1	295.75	292.25	4,983	55,241
	288.50	+1	289.75	286.50	269	5,204
	288.75	+0.75	289.75	288.75	1,821	31,487
Total					88,738	348,455

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Jan	75.30	+0.05	75.30	75.30	77	416
Mar	77.95	-	77.95	77.95	80	1,436
May	79.00	-0.20	79.00	79.00	-	20
Sep	80.25	-0.25	-	-	-	6
Nov	82.25	-0.25	-	-	-	65
Total					158	1,943

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jan	707.00	-3	710.00	702.00	23,806	65,614
Mar	709.50	-3.5	713.00	706.00	5,282	31,618
May	714.50	-3.5	719.00	711.00	1,319	21,723
Jul	716.50	-3.75	720.00	713.50	1,853	23,244
Aug	712.75	-3.25	715.00	711.00	342	2,527
Sep	693.00	-2	695.00	693.00	13	165
Total					33,283	154,191

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	24.85	+0.3	24.85	24.50	4,447	3,297
Jan	25.07	+0.32	25.22	24.70	13,635	41,713
Mar	25.52	+0.36	25.60	25.00	3,609	33,701
May	25.80	+0.36	25.80	25.32	1,123	13,778
Jul	25.91	+0.33	25.96	25.52	1,184	11,597
Aug	25.90	+0.38	25.90	25.45	241	2,596
Total					24,245	108,887

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	230.4	-3	232.5	229.3	2,782	10,915
Jan	223.6	-2.8	226.5	222.5	5,366	28,257
Mar	218.4	-2.2	219.7	217.4	3,238	34,689
May	215.1	-2.5	216.7	214.3	1,444	21,083
Jul	215.1	-2.4	216.2	214.6	485	15,266
Aug	214.8	-3.2	218.0	214.5	389	3,992
Total					13,732	121,105

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Mar	87.5	-10.0	-	-	-	-
Apr	110.0	-2.0	112.0	110.0	27	1,071
May	120.0	-2.0	-	-	-	22
Jun	130.0	-2.0	-	-	-	-
Nov	55.0	-1.6	-	-	-	3
Total					9	1,127

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Dec	1250	-5	1250	1240	11	268
Jan	1280	-10	1285	1280	39	713
Feb	1280	-5	1280	1265	27	5
Apr	1345	-15	1345	1340	27	402
Jul	1200	-10	1200	1200	-	129
Total					108	1,574

	Close	Prev
BFI	1221	1211

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	503.50	-16.50	515.00	495.50	170	418
Mar	525.00	-16.75	535.50	514.50	85	189
Total						

FUTURES DATA
All futures data supplied by CMS.

Minor metals from Metal Bulletin
European free market, $ per lb in warehouse (changes in brackets). Antimony: 99.65%, $ per tonne, 1,550-1,630 (1,590-1,680). Bismuth: min. 99.99%, tonne lots 3.20-3.35. Cadmium: min. 99.95%, cents a pound, 35.00-40.00 (30.00-40.00). Cobalt: MB free market, min. 99.8%, 25.25-26.00 (25.25-26.25); min. 99.3%, 18.80-19.30 (19.10-19.60). Mercury: min. 99.99%, $ per 76 lb flask, 140-150. Molybdenum: drummed molybdic oxide, 3.80-3.95. Selenium: min 99.5%, 2.00-3.00. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-52. Vanadium: min. 98%, CIF, 4.65-4.25 (4.35-4.50).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1039	+1	1043	1041	20	1,166
Mar	1069	+1	1090	1065	5,779	70,428
May	1087	+1	1105	1082	750	24,869
Jul	1104	+1	1118	1110	101	11,427
Sep	1121	-	1135	1120	547	18,962
Dec	1136	-	1149	1136	288	23,179
Total					8,211	180,618

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1591	-11	1601	1588	28	72
Mar	1618	-11	1642	1611	4,242	48,363
May	1645	-10	1665	1640	478	18,886
Jul	1665	-10	1685	1667	117	4,734
Sep	1684	-10	1706	1687	10	5,654
Dec	1705	-16	1726	1707	17	9,132
Total					4,880	98,866

■ COCOA (ICCO) (SDR's/tonne)

Dec 8	Price	Prev. day
Daily	1265.35	1247.24

■ COFFEE LIFFE (5 tonnes; $/tonne)

Jan	1767	+19	1791	1720	3,606	14,960
Mar	1755	+13	1783	1707	3,473	21,453
May	1742	+20	1760	1700	603	5,805
Jul	1735	+21	1735	1730	18	1,299
Sep	1735	+21	1745	1740	27	592
Nov	1740	+21	-	-	-	30
Total					7,727	44,159

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	187.50	+9.50	188.00	175.25	254	794
Mar	183.20	+8.85	183.50	170.50	6,195	17,763
May	178.20	+9.95	176.50	163.00	1,200	5,500
Jul	167.20	+9.45	163.75	155.70	264	2,684
Sep	159.20	+8.70	156.50	148.50	173	1,186
Dec	153.70	+8.70	151.00	143.00	80	990
Total					8,197	29,084

■ COFFEE (ICO) (US cents/pound)

Dec 8		Prev. day
Comp. daily	132.46	132.62
15 day average	124.73	123.94

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Mar	309.8	-0.1	309.9	308.6	1,700	22,022
May	313.8	-1.4	315.0	313.6	569	6,157
Aug	315.8	-0.8	316.7	315.6	124	4,543
Oct	309.6	-0.7	310.5	309.9	17	3,717
Dec	311.0	-0.3	311.3	311.3	-	142
Total					2,411	36,768

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	12.33	-0.02	12.35	12.25	10,141	117.1k
May	12.24	-0.01	12.25	12.16	2,163	32,193
Jul	11.89	+0.02	11.89	11.83	2,187	28,029
Oct	11.72	+0.06	11.72	11.62	573	24,534
Mar	11.54	+0.04	11.54	11.48	123	6,646
May	11.48	+0.03	11.45	11.45	12	947
Total					15,322	210,419

■ COTTON NYCE (50,000lbs; cents/lbs)

Mar	67.67	-0.80	68.15	67.52	3,156	43,276
May	69.07	-0.73	69.55	69.00	645	14,370
Jul	70.41	-0.69	70.90	70.35	671	15,147
Oct	72.70	-0.58	73.05	72.65	30	1,325
Dec	73.67	-0.18	73.80	73.55	219	11,135
Mar	74.60	+0.85	74.65	74.50	1	311
Total					4,739	85,956

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	83.15	+3.40	84.50	80.00	2,298	21,044
Mar	86.35	+3.45	87.00	83.25	1,288	15,618
May	89.50	+3.30	90.30	86.80	153	3,527
Jul	92.50	+3.30	92.00	90.25	21	1,924
Sep	95.35	+3.65	95.00	95.00	30	938
Nov	97.50	+4.60	-	-	7	1,194
Total					3,788	44,882

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 9	Dec 8	month ago	year ago
1795.9	1792.3	1811.7	1846.6

■ CRB Futures (Base: 1967 = 100)

Dec 8	Dec 5	month ago	year ago
236.26	237.03	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 8	Dec 5	month ago	year ago
185.90	185.73	204.34	222.51

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+150	to	653,575
Aluminium alloy	-260	to	42,580
Copper	+375	to	345,400
Lead	-175	to	115,800
Nickel	-12	to	66,336
Zinc	+450	to	494,750
Tin	+355	to	8,635

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	67.100	+0.200	67.400	66.825	4,711	10,600
Feb	67.825	+0.100	68.200	67.500	6,063	49,761
Apr	71.050	-0.050	71.325	70.825	2,310	22,800
Jun	70.050	+0.300	70.100	69.625	957	13,365
Aug	71.025	+0.275	71.075	70.600	482	5,400
Oct	72.800	+0.125	73.000	72.625	18	1,319
Total						

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Dec	62.900	+0.475	63.175	62.100	1,601	7,096
Feb	60.650	+0.425	60.950	59.850	2,376	19,859
Apr	57.475	+0.225	57.625	57.000	391	7,828
Jun	65.250	-	65.500	65.000	267	4,286
Jul	64.150	+0.075	64.350	63.975	50	1,315
Aug	62.050	+0.125	62.075	61.800	10	210
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	55.425	-0.025	55.850	54.550	2,092	6,365
Mar	54.850	-0.225	55.400	54.300	329	1,077
May	55.725	-0.375	56.200	55.000	111	1,011
Jul	55.475	-0.425	55.500	54.450	72	451
Aug	52.250	-	52.250	52.000	3	71
Total						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1550	44	77	14	35
1575	30	63	24	46
1600	18	51	38	58
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1750	73	119	22	45
1800	44	90	42	65
1850	24	67	72	91
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1750	42	97	25	92
1800	22	77	55	122
1850	11	60	94	155
■ COCOA LIFFE	Mar	May	Mar	May
1025	67	94	23	32
1050	51	79	32	42
1075	39	66	45	54
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1800	17	47	16	-
1850	5	36	-	-
1900	-	22	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.98-7.07	-0.165
Brent Blend (dated)	$17.49-7.51	-0.285
Brent Blend (Jan)	$18.04-8.06	-0.155
W.T.I.	$18.68-8.70w	-0.13

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$190-192	
Gas Oil	$167-169	-1
Heavy Fuel Oil	$90-92	
Naphtha	$177-178	-2
Jet fuel	$187-190	
Diesel	$177-179	-3

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	16.95-17.05	-0.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

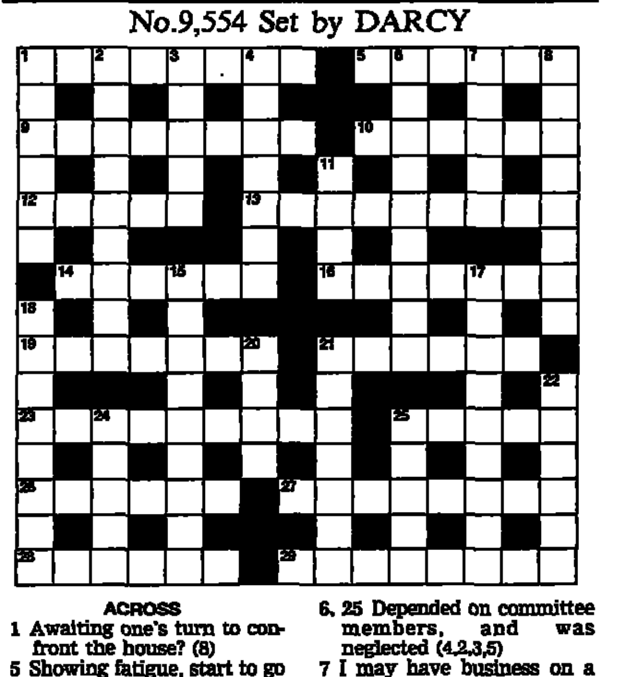
Gold (per troy oz)♣	$283.65	-4.20
Silver (per troy oz)♣	541.00c	-2.00
Platinum (per troy oz.)	$374.50	-6.00
Palladium (per troy oz.)	$206.50	-1.50
Copper	85.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.60r	
Tin (New York)	264.5	-7.00
Cattle (live weight)	96.69p	+5.57*
Sheep (live weight)	95.38p	+2.74*
Pigs (live weight)†	64.04p	+2.27*
Lon. day sugar (raw)	$293.60	-4.00
Lon. day sugar (wte)	$300.50	-1.20
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)¶	54.50p	
Rubber (Jan)¶	54.50p	
Rubber (KL RSS No1)	271.0z	+1.0
Coconut Oil (Phil)§	590.0y	
Palm Oil (Malay.)§	520.0	+2.5
Copra (Phil)§	$392.5	-7.5
Soyabeans (US)	188.0	+4.0
Cotton Outlook'A' index	74.90c	-0.05
Wooltops (64s Super)	390p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. w Jan. ¶London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,488 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,554 Set by DARCY



ACROSS

1 Awaiting one's turn to confront the house? (8)
5 Showing fatigue, start to go in the shade (6)
9, 10 Maybe Sue talked about this US citizen (8,6)
12 The kind of woman who may be missed (5)
13 Part of equipment given pair on the ocean (4,5)
14, 21 Dear, perhaps one could allow access to correspondence (6,6)
16 Have a bit of a go at me, always serving porridge? (7)
19 Pickled herring - you'll need some bread to wipe up (7)
21 See 14 across
23 Strip for an advertisement? (4,5)
25 Animal back in quiet urban area? (5)
26, 27 Quebec may suit me, having Polish and 9 connections (6,8)
28 Stop here - I heard about cheap liquor (3-3)
29 *Tie appears obsolete* to a certain degree (4,4)

DOWN

1 Seeing what's involved, drop a question that's not clear (6)
2 Coast where development's needed? Think about it (9)
3, *15 Expressed optimism* before finally trying to clear the bar? (5,4,5)
4 Rules to be followed when serving a sentence? (7)
6, 25 Depended on committee members, and was neglected (4,2,3,5)
7 I may have business on a tourist resort (5)
8 Spice Lady? Ad's rejected, cautiously (8)
11 Set up half of original banking system (4)
15 See 3 down
17 Quartet retained by top manager? (9)
18 Move back to a club, perhaps to support forward *planning* (8)
20 Errand-boy delivering only one section of the FT? (4)
21 Cause shock with striking fashion (7)
22 Small horse plane's conveying north, to Newcastle area (6)
24 Standing up *without* a break (2,3)
25 See 6 down

Solution 9,553

INTERNATIONAL CAPITAL MARKETS

Gilts surge on slowdown in spending

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

A strong performance by UK GILTS dominated European government bond trading yesterday after more evidence of a slowdown in consumer spending.

Gilts surged to outperform bunds, even though the US Treasury market was looking subdued in early trading.

In the futures market the March gilt contract settled ½ higher at 120⅜, with volumes picking up strongly to about 70,000 trades.

The yield spread over 10-year bunds also put in its best performance for several weeks, narrowing 11 basis points to 111 points.

Behind the rise was a report from the British Retail Consortium showing retail sales growth in November at its lowest since April 1996.

This was seen as good news on inflation, and therefore on the interest rate front, even though the short end of the market continues to discount another quarter-point rise in base rates.

More widely, the report was seen as further evidence that recent rate rises and cuts in government spending were slowing consumer spending. The resulting easing of inflationary pressures underpins the gilt market, which is now looking to data on average earnings next week for more comfort.

"We are starting to see evidence that the fiscal and monetary tightening is starting to bite. If there is no increase in average earnings we could see further strength in gilts," said Joanne Collins, gilt strategist at Nomura.

An auction today of £2bn of a new strippable gilt is expected to be well-supported. But the new stock is considered too illiquid to breathe life into the subdued strips market, which remains hampered by the shape of the yield curve.

GERMAN BUNDS led other European markets marginally lower after official data showed a small rise in unemployment and in monthly inflation in November, both in line with expectations. Analysts said the market was taking a breather after its recent rally and that the underlying trend was positive.

The yield on the 10-year bund rose slightly to 5.40 from its low on Monday, while the March future settled in London 0.26 lower at 103.67 in moderate volume.

Graham McDevitt, head of global bond strategy at Paribas, said that with yields on the 10-year sector hovering near their lows, the mood in the market was bullish: "We have seen very strong buying of long-dated stock this week, which is about as bullish as you can get."

Profit-taking pared recent gains in FRENCH BONDS, with the December contract settling in Paris 0.10 lower at 100.68 and the March contract 0.12 down at 100.20. Earlier, the December contract had set a new high of 100.86 as traders covered short positions after strong foreign buying on Monday.

ITALIAN BTPs were also lower, with the March contract settling down 0.30 at 114.66 in quiet London trading. The market is still expecting a cut in interest rates by the Bank of Italy, which is expected to wait until the 1998 budget has been approved.

The US TREASURY long bond recovered in moderate morning trading after two sessions of losses but shorter-term issues slipped. By midday the benchmark 30-year bond was ⅛ higher at 99[illegible], taking the yield down to [illegible] per cent.

Among shorter-term issues, the 10-year note [illegible] to 101⅛, yielding 5.94 per cent, while the two-year slid ⅛ to 99⅞, yielding [illegible] per cent. The Federal Funds rate was at 5.37 per cent.

Several factors helped to send the long bond higher, including the corporate sector. "Corporations are buying back Treasuries that they had shorted previously," said Patrick Dimick, treasury market analyst at UBS Securities. Municipalities, too, were active buyers.

The 30-year bond also benefited from some "flight to safety" buying on continued uncertainties surrounding the Asian sector.

Last Thursday the long bond yield fell below the 6 per cent yield level, its lowest in nearly two years, only to rise on Friday on the release of an unexpectedly strong labour report for November. Later this week the market will digest new figures on retail sales, due on Thursday, and producer prices on Friday.

CAPITAL MARKETS NEWS DIGEST

Contingent liability ratings from S&P

Standard & Poor's, the US credit rating agency, has published a new category of risk assessment based on the effect of private sector indebtedness on sovereign borrowers. The category, which S&P calls "contingent liability", is aimed at quantifying the risks of domestic banking crises on the creditworthiness of governments.

Its report, which breaks down percentages of potentially problematic loans to the private sector as a proportion of total domestic loans in 50 industrialised and emerging market countries, comes in the wake of widespread criticism of the international credit rating agencies. Many analysts have recently accused S&P and Moody's Investors Service, its chief competitor, of having reacted to the recent crises in south-east and north-east Asia rather than anticipating the turmoil.

S&P says its new approach will help it to better "quantify risks within financial systems and their effects on the sovereign governments' financial positions". The agency added: "Because they are a source of direct and indirect costs to the government, privately and publicly owned banks are contingent liabilities of the government and an integral part of sovereign risk analysis." The risk categories range from 5 per cent to as much as 60 per cent of total loans in some countries. *Edward Luce*

■ PARIS BOURSE

Lehman to be remote member

Lehman Brothers, the US investment bank, is to become the first remote member of the Paris Bourse. Lehman will be able to trade as a full member of the French exchange but operate from its main London trading floor.

Jeremy Isaacs, head of European equities at Lehman, said: "For an international firm like ourselves, it combines the benefits of full membership with the running of an integrated international equities business." Lehman, already a remote member of the Stockholm exchange, will clear French trades through Parel, a subsidiary of Société Générale. *George Graham, Banking Editor*

■ FRANKFURT STOCK EXCHANGE

Xetra system trades DM22bn

Xetra, the new electronic trading system at the Frankfurt stock exchange, had total turnover of DM22.18bn in its first week of operation last week, higher than had been expected and matching the level of the previous trading system, according to the Deutsche Börse.

With an average daily volume of DM4.4bn representing a good 40 per cent of the total cash market turnover in blue-chip German shares, "the system has been stable and running smoothly, with no disruptions," the exchange said. It also said eight of the 25 highest-volume trading participants in Xetra were based outside Frankfurt, with five based outside Germany. *Vincent Boland*

Argentina praised for innovative deal

INTERNATIONAL BONDS

By Edward Luce

Argentina won most plaudits yesterday with its innovative $500m issue. The structure, known as a spread adjustment note, has only been used once before, when Merrill Lynch launched a $225m bond in 1990.

Under the formula, investors bid in a Dutch auction at regular intervals to adjust the spread paid on the bond. The price of the bond remains the same as the November 2002 US Treasury.

This, Argentina hopes, will enable it to benefit from any improvement in market sentiment over the next few months. Auctions will be held next May and November and thereafter at annual intervals until the issue matures in 2002. "This means Argentina can avoid locking itself into the high spreads we're seeing at the moment," said an official at Merrill Lynch, sole lead manager, in New York.

However, bankers said the bond, which comes at an initial spread of 375 basis points, was unlikely to be particularly well traded in the secondary markets because its price will be linked to the five-year Treasury. This would reduce the scope for making trading gains. Nevertheless, most congratulated Argentina for pulling off such an issue.

Elsewhere, borrowers seemed to be scrambling to fill in annual funding gaps in the short time that remains before Christmas.

GENERAL ELECTRIC CAPITAL CANADA tapped its traditional retail market with a five-year $420m offering. The bond, lead managed by Goldman Sachs and guaranteed by GECC of the US, was priced to yield 20 basis points over US Treasuries. This gives investors some pick-up over the GECC five-year deal launched last July, which is trading at a spread of under 10 basis points.

The EUROPEAN INVESTMENT BANK took advantage of the rally in UK gilts to launch a seven-year £150m add-on to its 10-year sterling bond issued in November 1994. At a spread of 10 basis points over gilts, the add-on gave investors a seven basis point pick-up over where the existing portion is trading.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Aames MT, 97-D(a)‡	600						Lehman Brothers
Republic of Argentina	500	(b,a)‡	99.2969R	Nov 2002	0.875R	(b%-02)	Merrill Lynch
General Electric CCRF(c)	420	6.125(l)	99.65R	Dec 2002	0.25R	(5%%-02)	Goldman Sachs
■ D-MARKS							
Air Canada	200	6.625	99.85R	Jan 2005	0.50R	39(7%-04)	Bayerische Landesbank
■ YEN							
Swedish Export Kredit(d)♦	40bn	5.60(l)	99.95	Dec 1999	1.50	-	Nomura International
European Investment Bank♦	25bn	5.00♦	100.00	Dec 2000	1.50	-	Daiwa Europe
■ STERLING							
European Investment Bk(f)	150	6.00	95.867R	Nov 2004	0.30R	fl(Nov04)	ABN-Amro Hoare Govett
LB Schleswig Holstein	100	7.25	99.80R	Jan 2000	0.125R		Hambros Bank
■ FRENCH FRANCS							
Groupe Andre‡	800	(g)	100.00R	Dec 2002	2.00R	-	Crédit Lyonnais/Merrill
■ SWISS FRANCS							
City of Zurich	250	3.50	101.05	Jan 2008	2.625	-	CSFB
Kommunekredit	150	3.25	102.80	Jan 2003	2.00	-	SBC Warburg DR
■ ITALIAN LIRE							
Deutsche Finance (Nlands)‡	100bn	(h)	99.50R	Jan 2008	0.325R	-	Deutsche Morgan G'fell
■ GUILDERS							
Rabobank Nederland	500	5.625	99.50R	Jan 2010	0.30R	-	Rabobank International
■ LUXEMBOURG FRANCS							
Dresdner Bank Luxembourg	2bn	6.00(l)	102.875	May 2008	2.00	-	
■ SWEDISH KRONOR							
World Bank	300	6.00	101.28	Jan 2004	1.75	-	Kreditbank
■ DANISH KRONER							
BBL International Finance	400	5.625(s)	102.00	Dec 2003	1.875	-	BBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) [illegible]ch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees [illegible] at re-offer level. a) Mortgage Trust. 11-tranche deal. b) 9½%, then adjusted following Dutch auction process in May/Nov 98, Nov 99 and annually thereafter. Spread will be between 200bp and 850bp. c) Capital Canada Retailer Fin Services. d) Redemption in sterling. e) Redemption in sterling. f) Fungible with £550m launched 28/1/94. Plus 27 day[illegible]rued. g) 3-mth Pibor +150bp. h) 7% to Jan 00, then 16% –2 x 12-mth Libor to Jan 06, then 6-mth Libor +25bp paid se[illegible]nually. Minimum zero coupon. l) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 9	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.2032	5.24	+0.03	+0.02	+0.32	-1.79
	10/07	10.000	126.7303	6.27	+0.07	+0.03	+0.31	-1.09
Austria	09/99	7.000	104.1200	4.51	+0.02	+0.01	-0.10	+0.88
	07/07	5.625	100.9900	5.48	+0.03	-0.02	-0.19	-0.35
Belgium	04/99	7.000	103.5400	4.28	+0.04	+0.03	-0.11	+0.93
	03/07	6.250	105.0100	5.54	+0.02	-0.02	-0.19	-0.35
Canada	03/99	4.000	99.2800	4.59	-0.04	+0.18	+0.65	+0.63
	06/07	7.250	110.8000	5.72	+0.01	+0.19	+0.21	-0.58
Denmark	12/99	6.000	102.3600	4.73	+0.01	+0.03	-0.08	+0.54
	11/07	7.000	108.2800	5.87	-	-0.03	-0.28	-0.79
Finland	01/99	11.000	107.1030	4.19	-	-0.03	-0.21	+0.34
	04/06	7.250	111.1450	5.54	-0.01	-0.07	-0.28	-0.84
France	11/99	7.000	104.7600	4.35	+0.02	+0.05	-0.10	+0.74
	10/04	6.750	109.0300	5.15	+0.02	-	-0.19	-0.01
	10/07	5.500	100.7000	5.40	+0.02	-0.01	-0.23	-0.28
	10/25	6.000	101.0800	5.92	+0.01	-0.03	-0.29	-0.72
Germany	06/99	3.500	98.9300	4.24	+0.04	+0.02	-0.05	+0.79
	07/04	6.750	108.4300	5.20	+0.03	+0.01	-0.14	-0.20
	07/07	6.000	104.3200	5.40	+0.03	-0.01	-0.20	-0.36
	07/27	6.500	107.4200	5.98	+0.04	-0.03	-0.26	-0.70
Ireland	04/99	6.250	101.2200	5.23	+0.04	+0.07	-0.27	-0.73
	08/06	8.000	114.6000	5.81	+0.05	+0.03	-0.28	-0.91
Italy	05/00	6.000	102.0700	5.08	+0.02	-0.01	-0.33	-1.41
	05/02	6.250	103.4000	5.37	+0.01	-0.01	-0.32	-1.48
	07/07	6.750	107.1000	5.77	-0.01	-0.03	-0.37	-1.79
	11/26	7.250	113.1300	6.26	+0.01	-0.02	-0.41	-1.85
Japan	08/99	4.800	106.4900	0.49	+0.04	+0.08	+0.02	-0.25
	12/02	4.800	117.0200	1.28	+0.07	+0.01	+0.07	-0.50
	09/05	3.000	109.1400	1.74	+0.09	-0.04	+0.07	-0.68
	03/17	3.500	114.7100	2.53	+0.06	-0.11	+0.11	-0.69
Netherlands	06/99	7.500	104.4800	4.35	-	+0.04	-0.04	+0.92
	02/07	5.750	102.5800	5.38	+0.04	-0.01	-0.20	-0.34
New Zealand	02/00	6.500	98.4798	7.27	+0.04	+0.31	+0.39	+0.28
	11/06	8.000	108.7534	6.96	+0.07	+0.26	+0.35	-0.24
Norway	01/99	9.000	105.0300	4.35	-0.01	-0.03	-0.18	-0.32
	01/07	6.750	108.2700	5.56	-	+0.01	-0.24	-0.79
Portugal	03/99	8.500	104.4259	4.82	-0.01	-0.02	-0.25	-1.39
	02/07	6.625	105.9451	5.77	-	-0.02	-0.28	-1.19
Spain	07/99	7.400	104.1843	4.65	-0.03	+0.01	-0.26	-1.31
	03/07	7.350	111.6926	5.63	-0.04	-0.02	-0.33	-1.31
Sweden	01/99	11.000	108.0670	5.20	-0.05	+0.02	+0.09	+0.29
	08/07	8.000	113.0660	6.16	-0.03	-0.01	-0.22	-0.83
Switzerland	03/99	4.000	102.7000	1.78	+0.03	+0.01	-0.30	-0.41
	06/07	4.500	108.0000	3.49	+0.01	-0.02	-0.15	-0.44
UK	08/99	6.000	98.5313	6.94	-0.05	-0.14	-0.13	-0.33
	11/04	6.750	101.1563	6.54	-0.07	-0.06	-0.15	-0.82
	12/07	7.250	106.1406	6.41	-0.06	-0.06	-0.17	-1.23
	06/21	8.000	120.1641	6.34	-0.06	-0.03	-0.13	-1.36
US	07/99	5.875	100.0780	5.82	-0.03	-0.03	+0.09	+0.15
	05/04	7.250	106.9610	5.93	-0.04	+0.09	+0.02	-0.02
	08/07	6.125	101.3520	5.94	-0.01	+0.09	-0.05	-0.24
	08/27	6.375	102.6480	6.18	-0.01	+0.11	-0.01	-0.28
ECU	03/99	5.000	100.4200	4.63	+0.01	-	-0.12	+0.53
	04/07	5.500	99.7800	5.53	+0.02	-0.03	-0.25	-0.54

London closing. *New York closing. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax of 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 9	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.31	+0.91	+0.37	New Zealand	6.96	+1.56	+1.02
Austria	5.48	+0.08	-0.46	Norway	5.56	+0.16	-0.38
Belgium	5.54	+0.14	-0.40	Portugal	5.77	+0.37	-0.17
Canada	5.72	+0.32	-0.22	Spain	5.69	+0.29	-0.25
Denmark	5.87	+0.47	-0.07	Sweden	6.16	+0.76	+0.22
Finland	5.54	+0.14	-0.40	Switzerland	3.49	-1.91	-2.45
France	5.40	-	-0.54	UK	6.41	+1.01	+0.47
Germany	5.40	-	-0.54	US	5.94	+0.54	-
Ireland	5.81	+0.41	-0.13	ECU	5.53	+0.13	-0.41
Italy	5.77	+0.37	-0.17				
Japan	1.74	-3.66	-4.20				
Netherlands	5.38	-0.02	-0.56				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	93.2663	8.95	+0.03	+0.67	+3.06
Poland	07/00	7.750	BBB-	102.4767	6.65	-0.06	+0.13	+0.82
Russia	11/01	9.250	BB-	97.9046	9.91	-0.19	-0.02	+4.05
■ LATIN AMERICA								
Argentina	01/17	11.375	BB	108.0000	10.39	+0.20	-1.23	+4.36
Brazil	11/01	8.875	BB-	100.1406	8.82	+0.03	-0.62	+2.96
Mexico	01/07	9.875	BB	104.2500	9.17	+0.10	-0.55	+3.23
■ ASIA								
China	07/06	7.750	BBB+	105.4294	6.88	+0.03	-0.42	+0.95
Philippines	10/16	8.750	BB+	94.1223	9.42	-0.13	-0.73	+3.40
Thailand	04/07	7.750	A-	90.3474	9.33	+0.04	-0.82	+3.39
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.9863	7.79	-0.44	-0.11	+1.86
South Africa	12/99	9.625	BB+	104.3076	7.28	+0.01	+0.55	+1.49
Turkey	05/02	10.000	B	102.3834	9.33	-0.27	-0.17	+3.44
■ BRADY BONDS								
Argentina	03/23	5.500	BB	72.2500	8.69	+0.06	-0.64	+2.81
Brazil	04/24	5.250	BB-	70.2500	8.84	+0.13	-0.89	+2.75
Mexico	12/19	6.250	BB	82.2653	7.97	+0.03	-0.46	+1.92
Venezuela	03/20	6.750	B+	85.1300	8.21	+0.11	-0.58	+2.15

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	100.78	100.68	-0.10	100.86	100.64	74,700	70,561
Mar	100.36	100.20	-0.12	100.42	100.18	42,428	65,798
Jun	99.80	99.62	-0.12	99.80	99.80	2	12

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
96	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 9,227 . Previous day's open int., Calls 70,723 Puts 102,483.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.77	103.67	-0.26	103.82	103.58	131782	263621
Jun	103.04	103.02	-0.22	103.04	102.96	168	48

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10350	0.41	0.72	0.95	1.11	0.24	0.55	0.78	1.59
10400	0.17	0.47	0.69	0.89	0.50	0.80	1.02	1.87
10450	0.06	0.28	0.49	0.70	0.89	1.11	1.32	2.18

Est. vol. total, Calls 11264 Puts 23960. Previous day's open int., Calls 135198 Puts 147734

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.47	103.45	-0.06	103.52	103.40	60,736	190,367

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.43	103.43	-0.09	103.52	103.42	1,925	8,394
Mar	102.85	102.85	-0.09	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	114.82	114.66	-0.30	114.95	114.60	21399	115735
Jun	114.17	114.15	-0.36	114.25	114.17	21	42

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11450	1.06	1.31	0.90	1.68
11500	0.79	1.09	1.13	1.94
11550	0.57	0.90	1.41	2.25

Est. vol. total, Calls 900 Puts 388. Previous day's open int., Calls 27505 Puts 30602

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	105.45	105.44	+0.26	105.52	105.32	48,387	81,321
Mar	105.00	104.97	+0.25	105.05	104.90	12,197	29,519

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	119-06	119-25	+0-18	119-29	119-06	4443	29911
Mar	119-23	120-12	+0-18	120-15	119-21	71627	166890

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
120	0-50	1-16	1-36	0	0-26	0-56	1-12	16-20
121	0-20	0-48	1-03	0	0-60	1-24	1-43	16-20
122	0-07	0-26	0-43	0	1-47	2-02	2-19	17-20

Est. vol. total, Calls 6193 Puts 928. Previous day's open int., Calls 43950 Puts 22490.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	99.94	99.80	-0.08	99.98	99.82	1,173	8,446
Mar	99.72	99.54	-0.08	99.72	99.62	316	792

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	118-06	118-02	-0-03	118-12	118-00	11,056	121,221
Mar	117-31	117-30	-0-01	118-07	117-25	293,094	588,347
Jun	117-24	117-20	-0-01	117-24	117-19	2,126	17,987

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	129.48			129.55	129.24	2580	n/a
Jun	129.04			129.04	129.04	1	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Dec 8	Red date	Coupn	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	103.5111	[illegible]34	+0.03	+0.08	+0.43
NY Tel	08/25	7.00	A+	97.1936	[illegible]3	+0.03	+0.01	+1.09
CWE	05/08	8.00	BBB	108.0010	[illegible]0	+0.02	+0.06	+0.95
■ FINANCIALS								
GECC	05/07	6.75	AAA	115.6360	[illegible]	+0.02	+0.08	+0.55
Banc One	08/02	7.25	A+	103.2872		+0.03	+0.12	+0.50
US West	01/07	7.30	BBB+	102.0775		+0.02	+0.04	+1.03
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.6330		+0.04	+0.22	+0.71
Wal Mart	05/02	6.75	AA	101.6408	[illegible]	+0.03	+0.09	+0.40
Dayton Hud	06/21	9.70	BBB+	127.8220	[illegible]	+0.04	-0.02	+1.08
■ AGENCIES								
FHLMC	04/07	7.14	N/A	106.3185	6.[illegible]	+0.02	+0.07	+0.28
SLMA	03/00	7.50	N/A	103.1388	5.[illegible]	+0.04	+0.13	+0.12
FNMA	02/18	8.95	N/A	126.9863	6.[illegible]	-0.04	-0.03	+0.38
FFCB	06/06	8.95	N/A	117.6016	6.[illegible]	+0.06	+0.08	+0.29
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.0[illegible]	-	-	-
AK Stl	12/01	9.13	BB-	104.0000	0.0[illegible]	-	-	-
Pacalta	06/04	10.75	B-	98.2500	0.0[illegible]	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bonds			
Prime rate	8½	One month	-	Two year	5.81
Broker loan rate	7¾	Two month	-	Three year	5.85
Fed.funds	5⅞	Three month	5.25	Five year	5.92
Fed.funds at intervention	-	Six month	5.51	10-year	5.96
		One year	5.60	30-year	6.14

INTERNATIONAL BONDS

Dec 9	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	102.6000	5.38	-0.06	-0.33	-0.02
Spain	01/07	5.750	AA	101.3700	5.55	+0.02	-0.23	+0.15
Philip Morris	03/04	5.375	A	98.8000	5.60	+0.02	-0.09	+0.41
ABN AMRO FRN	03/05	3.625	n/a	99.6414	5.42	+0.02	-0.18	+0.13
■ EURO FFR								
Austria	01/04	5.500	AAA	101.6300	5.18	-	-0.21	+0.03
Abbey Nat	02/04	6.000	AA	103.5500	5.31	+0.01	-0.17	+0.16
Cred Foncier	02/04	9.125	A	118.0300	5.59	-	-0.18	+0.44
Abbey Nat FRN	09/06	4.510	n/a	101.8835	4.25	+0.02	-0.22	-1.06
■ EURO LIRA								
EIB	02/07	7.000	AAA	109.4200	5.65	-	-0.40	-0.12
Abbey Nat	02/02	5.800	AA	104.9000	5.45	+0.02	-0.32	+0.08
Walt Disney	06/00	8.625	n/a	107.2900	5.43	+0.02	-0.40	+0.36
Abbey Nat FRN	03/07	8.000	AAr	104.0324	6.85	+0.02	-0.65	+1.08
■ EURO £								
EIB	12/07	7.625	AAA	106.7186	6.68	-0.07	-0.23	+0.27
Dresdner Bk	12/07	7.750	AA-	104.1058	7.16	-0.07	-0.18	+0.75
RBS	01/07	8.375	A+	106.7493	7.33	-0.06	-0.09	+0.92
Abbey Nat FRN	02/02	7.830	AA	100.0396	6.65	-0.06	-0.13	-0.01
■ EURO $								
EIB	04/07	7.250	AAA	106.3738	6.32	+0.10	-0.04	+0.38
ABN Amro	06/07	7.125	AA-	103.3084	6.65	+0.10	-0.04	+0.71
Quebec	01/07	7.000	A+	102.4249	6.64	+0.08	-0.02	+0.70
Citicorp FRN	02/04	5.938	A+	99.3685	6.06	+0.02	+0.21	+0.15
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.9000	5.97	+0.06	+0.27	+0.18
Toronto	05/04	8.500	AA+	113.7988	5.86	+0.06	+0.26	+0.07
Bell Canada	07/99	10.625	A+	107.7025	5.40	+0.06	+0.50	+0.19
Deutsche B FRN	09/02	5.875	AAA	101.2986	5.56	+0.03	+0.21	-0.08
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.2000	1.11	+0.07	+0.02	+0.02
Spain	03/02	5.750	AA	119.1000	1.15	+0.07	-	+0.06
Cred Foncier	08/02	4.750	A	114.1209	1.59	+0.06	+0.03	+0.49
Italy FRN	07/99	0.594	AA	100.3696	0.30	+0.04	+0.02	-0.19

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Dec 9	Day's change %	Mon Dec 8	Accrued interest	xd adj. ytd		Low coupon yield Dec 9	Dec 8	Yr. ago	Medium coupon yield Dec 9	Dec 8	Yr. ago	High coupon yield Dec 9	Dec 8	Yr. ago
1 Up to 5 years (19)	119.19	0.17	118.99	1.81	10.39	5 yrs	6.61	6.67	7.22	6.69	6.76	7.29	6.74	6.80	7.33
2 5-15 years (20)	157.32	0.43	156.65	1.74	11.88	15 yrs	6.38	6.46	7.74	6.40	6.48	7.71	6.49	6.54	7.68
3 Over 15 years (4)	189.63	0.63	188.45	1.12	14.12	20 yrs	6.39	6.48	7.82	6.37	6.43	7.74	6.48	6.53	7.70
4 Irredeemables (4)	221.70	0.60	220.98	1.74	8.46	Irred.†	6.45	6.55	7.90						
5 All stocks (47)	150.26	0.38	149.71	1.72	11.88										

Index-linked							Inflation 5% Dec 9	Dec 8	Yr. ago	Inflation 10% Dec 9	Dec 8	Yr. ago
6 Up to 5 years (2)	211.76	0.09	211.56	1.16		Up to 5 yrs	3.07	3.19	3.24	2.27	2.49	2.59
7 Over 5 years (10)	216.13	0.25	215.59	1.55		Over 5 yrs	3.05	3.10	3.56	2.82	2.90	3.36
8 All stocks (12)	214.60	0.24	214.09	1.51								

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7⅞%; Medium: 8%-10⅞%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 9	Dec 8	Dec 5	Dec 4	Dec 3	Yr ago	High*	Low*
Govt. Secs. (UK)	100.80	100.39	99.86	100.49	100.26	94.50	101.8[illegible]	[illegible]
Fixed Interest	132.95	132.25	132.00	132.37	132.57	118.64	133.64	115.32

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

● 'Tap' stock. ZZ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

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BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

Saracen Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES
[illegible]

BANKS, RETAIL
[illegible]

BREWERIES, PUBS & REST
[illegible]

BUILDING & CONSTRUCTION
[illegible]

BUILDING MATS. & MERCHANTS
[illegible]

CHEMICALS
[illegible]

CHEMICALS - Cont.
[illegible]

DISTRIBUTORS
[illegible]

DIVERSIFIED INDUSTRIALS
[illegible]

ELECTRICITY
[illegible]

ELECTRONIC & ELECTRICAL EQPT
[illegible]

ENGINEERING
[illegible]

ENGINEERING - Cont.
[illegible]

ENGINEERING, VEHICLES
[illegible]

ENGINEERING, VEHICLES - Cont.
[illegible]

EXTRACTIVE INDUSTRIES
[illegible]

EXTRACTIVE INDUSTRIES - Cont.
[illegible]

FOOD PRODUCERS
[illegible]

GAS DISTRIBUTION
[illegible]

HEALTH CARE
[illegible]

HEALTH CARE - Cont.
[illegible]

HOUSEHOLD GOODS
[illegible]

INSURANCE
[illegible]

INVESTMENT TRUSTS
[illegible]

INVESTMENT TRUSTS - Cont.
[illegible]

INV TRUSTS SPLIT CAPITAL
[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

Net asset values supplied by Nat West Securities Limited as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£22¼	—	*£27⅛	£21⅝	—	3.0	ϕ
Barlow	♣	665	+⅛	982	651	—	3.0	ϕ
Gold Flds Prop R		121¼	-⅛	197	115	—	8.7	10.9
SA Brews	†	£14¼xd	+½	£23¼	£13¼	—	2.5	—
Standard Bank		£25½	+⅛	£38	£21	—	2.1	—
Tiger Oats		845xd	—	1180	780	—	2.3	ϕ
Tongaat-Hulett		748¼xd	+1	780	719½	—	2.4	ϕ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		£5090xd	—	£50300	£472	—	—	—

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xp ex capital distribution.

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LONDON STOCK EXCHANGE

Shares hit by profit-taking and Wall Street dip

MARKETS REPORT

By Steve Thompson,
UK Stock Market Editor

UK stocks fought in vain to extend their recent extraordinary run, but were unable to resist the downside pressures being exerted on European markets by Wall Street.

The latter kicked off the US session under light pressure, sliding 20 points within five minutes of the opening bell and taking a rather weary-looking London market with it.

By the close, the FTSE 100 index settled 10.3 lower at 5,177.1. The FTSE 250 index, similarly under a cloud for much of the session, rallied towards the close to finish 0.6 firmer at 4,781.6. The FTSE SmallCap resisted the downside pressure, nudging up 1.3 to 2,305.6.

Earlier, London had clawed its way back into positive ground, after an initial poor opening triggered mostly by Wall Street's performance on Monday – when the Dow Jones Industrial Average closed 38 points lower – and a rather mixed performance by Far East markets.

London's pick-up began despite rather mixed economic news for last month. Headline inflation remained at an annual rate of 3.7 per cent and the core figure, targeted by the government, was unchanged at 2.8 per cent, higher than the market had expected.

But the inflation news was offset by evidence from the British Retail Consortium of faltering retail sales in November. The news from the high street, as well as unsettling some of the retailing stocks, was interpreted as reducing the need for further rises in interest rates in the short term.

The takeover speculation that has encompassed the banks and other financial sectors of the market intensified yesterday. It drove the two banks seen as most likely to be involved in bids or mergers – Barclays and NatWest – even higher, although dealers attributed much of the rise in the former to a "buy" recommendation from Cazenove, the stockbroker.

Other big winners in the financials included Alliance & Leicester, which benefited from a switch recommendation, and Royal & Sun Alliance, where the market remained convinced a buy-back operation was not too far away.

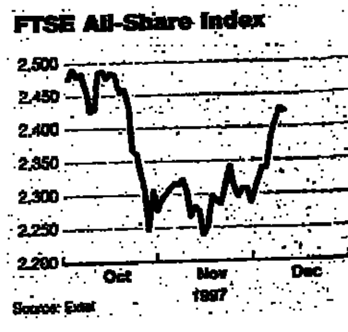
Takeover speculation also returned to the food retailing sector, specifically Safeway.

A senior trader at one big European securities houses said London looked set to continue its pre-Christmas run-up. "The far east-induced tremors of last month shook out most of the loose holders in London. It feels as if an ever-increasing amount of cash is chasing an ever-decreasing amount of stock. I think we might challenge the all-time high before Christmas."

There were two high profile newcomers to the market: Energis, the telecoms division of National Grid, managed to stay above its 290p issue price; and Bovis, hived off from P&O, which struggled to hold at its 200p issue price.

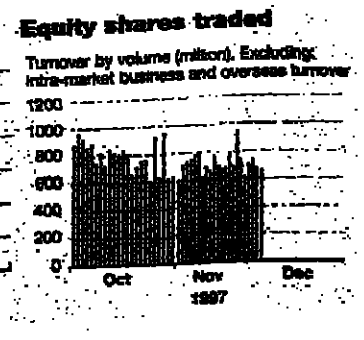
Overall turnover was 803m shares, with FTSE 100 stocks accounting for just over half that figure.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	5177.1	–10.3
FTSE 250	4781.6	+0.6
FTSE 350	2485.3	–4.0
FTSE All-Share	2424.81	–3.53
FTSE All-Share yield	3.22	3.21
FT 30	3291.9	+0.4
FTSE Non-Fins p/e	20.22	20.33
FTSE 100 Fut Dec	5218.0	+29.0
10 yr Gilt yield	6.48	6.55
Long gilt/equity yld ratio	2.01	2.03

Best performing sectors

1. Insurance .... +1.8
2. Telecommunications .... +1.2
3. Other Financial .... +0.9
4. Engineering .... +0.8
5. Oil Exploration & Prod .... +0.7

Worst performing sectors

1. Building & Construction .... –1.3
2. Retailers: General .... –1.3
3. Household Goods .... –1.3
4. Paper: Pckg & Printing .... –1.0
5. Oil: Integrated .... –1.0

Bid talk lifts Safeway

By Joel Kibazo, Peter John and Martin Brice

Safeway featured as talk of a predator stalking one of the UK's largest food retailers did the rounds in the market yesterday.

The speculation suggested Asda Group may launch a hostile takeover bid following abortive merger discussions held earlier this year.

Dealers pointed to the poor performance of Safeway's stock following last month's profits warning and a press report that said Safeway was mustering defences against a possible hostile bid. The shares closed 13 up at 338p, in busy trade of 11m.

However, leading analysts were sceptical about the takeover talk. One said simply: "I can't say it will never happen but I think a hostile bid from Asda is unlikely at this stage." Shares in Asda hardened ¾ to 174¼p.

In the rest of the sector, Dresdner Kleinwort Benson advised clients to "take profits" in Tesco. The shares fell 10 to 506p. The team at Kleinwort stressed its recommendation was on valuation grounds and it still rated the group favourably.

Tracker funds, and any leading institutions needing an appropriate holding in FTSE 100 index stocks, were actively preparing for the latest additions to the Footsie.

The indices committee makes its decision today based on the valuations after yesterday's close. Mercury Asset Management and British Energy are the principal entry candidates.

However, MAM, which faces a £3.1bn bid from Merrill Lynch, will not join the Footsie if the bid becomes unconditional before the changes become effective on December 22. The reserve entrant is Amvescap, formerly Invesco. MAM rose 3 to £16.72, British Energy 5 to 420p and Amvescap 16 to 483p.

RMC and Blue Circle are expected to drop out of the index while TI is on the borderline.

In the second-line FTSE 250 index, Ionica, RJB Mining and Courts are expected to leave, as are stocks linked to the Asian markets: Mercury World Mining Trust, Foreign and Colonial Pacific Investment Trust and Fleming Japanese Investment Trust.

Admiral, Jarvis, Investors Capital Trust, Britax, Hazlewood Foods, JBA Holdings and Courtaulds Textiles are expected to be join the 250.

BAe achieved one of the best advances in the FTSE 100, the shares climbing 73 to £17.68 on renewed hopes of consolidation in the European defence industry.

However, Barnaby Weiner at Merrill Lynch said: "The politicians have articulated something that the companies themselves have been pursuing energetically for the past two years." While volume of 3.1m was brisk, it was unexceptional.

The excitement was sparked by the statement from the British, French and German governments that they had agreed on the need for an integrated European aerospace and defence electronics industry, with the first stage being the transformation of Airbus Industrie into an integrated company. However, the possible flotation of Airbus is not a new idea, and some securities houses have already been eyeing the position of broker to the new company.

Rumours of a predator building a stake in engineering company Weir Group did the rounds late in the day as a total of 10m shares, or about 5 per cent of the company, were traded. Normal share size in the stock is 10,000 shares, which rose 2 to 277p.

Housebuilders suffered in the wake of a results statement from Berkeley Group that talked of a "slackening in demand". Its shares slipped 22p to 641½p, one of the bigger falls in the FTSE 250. Other housebuilders hurt by the markdown included George Wimpey, which suffered the biggest fall in the FTSE 250 as its shares declined 5½ to 100½p.

P&O rose 3 to 673p as it floated its housebuilding subsidiary Bovis, which slipped to 199p from its flotation price of 200p.

A rise of 66 to £16.39 in Barclays was initially put down to continuing speculation about a possible tie-up with National Westminster. However, it transpired later that Cazenove was recommending the stock. NatWest was up 22 at best and ended 18 better at £10.16, a new closing peak. Lloyds fell 15 to 770½p.

Hiscox Select, a Lloyd's investment trust, jumped 29 to 142p after an offer from Hiscox the insurer, which values Select at 146.6p a share or just under £44m. Hiscox was flat at 190p.

Baronsmead Investment Trust, which is currently fighting a hostile bid from Dunedin Enterprise Investment Trust, improved 11 to 114p after agreeing to a bid from 3i at 115p a share. 3i gained 3 to 514p.

General retailers were hit by the latest British Retail Consortium survey, which pointed to a significant slowing in high street sales.

The biggest falls were in clothing retailers. Next fell 27 to 709p, with sentiment hit further by a profits downgrade from ABN Amro Hoare Govett. It reduced its current year estimate by £4 to £178m, and the following year's figure by £6m to £206m, saying "margins will be lower due to higher stock levels". The team at the broker shifted its stance on the stock from "undervalued" to "hold".

A profits warning from drinks group Matthew Clark saw the shares surrender 46½ to 183½p.

Profit warnings also impacted heavily on Partners, the stationary retailer, whose shares almost halved, finishing off 71½ or 44 per cent at 90p, and Delcam, the computer software group, which plummeted 62½ to 165p.

Telecoms group Energis, which made its market debut yesterday afternoon at 290p, ended its first session at 292p after solid trade of 9.9m. However, dealers expect the shares to fall over the next few sessions.

Insurance broker Willis Corroon appreciated 8 to 139p, with leading holders of the stock said to have warmed to the prospect of a merger with Sedgwick Group. The latter remained the subject of a two-way pull in which some 2.8m shares changed hands. The shares eased to 140½p.

Positive comment from Glaxo Wellcome on its research and development pipeline was offset by stock market weakness in London and New York.

The company told investors and industry analysts at its research centre in Stevenage that it was on track to meet its target of delivering three significant medicines per year. The shares ended only 5 firmer at £14.40.

Mentmore Abbey, the SmallCap support services company, gained 6¼ to 51¼p on interim results that came in ahead of forecasts.

FT 30 INDEX

	Dec 9	Dec 8	Dec 5	Dec 4	Dec 3	Yr ago	*High	*Low
FT 30	3291.9	3291.5	3279.8	3264.4	3206.6	2782.9	3430.3	2668.8
Ord. div. yield	3.43	3.42	3.44	3.47	3.55	4.09	4.22	3.29
P/E ratio net	21.46	21.47	21.35	21.18	20.72	16.86	22.33	15.8
P/E ratio nil	21.17	21.18	21.05	20.89	20.43	16.71	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 18/02/00. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3291.7	3267.3	3280.2	3295.8	3294.2	3293.9	3292.5	3283.4	3286.9	3296.2	3267.2

	Dec 9	Dec 8	Dec 5	Dec 4	Dec 3	Yr ago
SEAQ bargains	52,107	59,302	62,682	62,014	44,637	36,321
Equity turnover (£m)†	–	NA	3134.8	2276.3	2369.4	1337.9
Equity bargains†	–	NA	54,649	49,965	39,481	19,395
Shares traded (ml)†	–	NA	863.7	663.5	676.1	774.5

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	799	Total Highs	125	Total contracts	39,176
Total Falls	689	Total Lows	71	Calls	21,675
Same	1,561			Puts	17,501

Dec 9 *Data based on Equity shares listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	50.8	102	99½	Advance UK Tst	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	1,354	30½	29½	BG 'B'	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	13.7	21½	16½	Boustead	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§200	F.P.	224.5	204½	196½	Bovis Homes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§90	F.P.	17.2	134½	102½	†CRC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	6.92	114	113½	Capital Opps Tst	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§–	F.P.	2.71	73	63	Comland Comm	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§150	F.P.	8.47	153½	153½	†Cresco Ind	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	-	£76	£72½	Fmg Grd Units	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*	F.P.	18.4	100	85	Foresight Tech	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*	F.P.	1.00	35	5½	Do Warrants	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	20.2	270	270	Manchester & Lon Inv	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	8.17	57½	55	†Market Link Publ	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*	F.P.	74.5	99½	70½	†Metalrax	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§45	F.P.	22.6	57½	50½	†Minorplanet Sys	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	23.4	143½	115½	Nthn Recruitment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70	F.P.	24.5	83½	53	Nott'ham Forest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	8.12	60	6	†Range Cooker Co	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
–	F.P.	21.0	98½	93½	†Rapid Technology	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§105	F.P.	38.1	114½	112½	ScS Upholstery	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§95	F.P.	5.58	114½	104½	†Savoy Asset Mngt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§250	F.P.	15.9	255	250	Seascope Ship	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	160.5	101½	98½	Second Scot Nat	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	100.9	101	100¼	Do Zero Div Prf	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
§160	F.P.	44.0	176	160	Tetra	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
*–	F.P.	-	50	43½	Vanguard Md Wts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5205.0	5178.0	-40.0	5218.0	5168.0	14021	54698
Mar	5233.0	5226.5	-40.0	5263.5	5218.5	3939	14389

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4785.0	4785.0	-5.0	4785.0	4785.0	1156	6814
Mar	4862.0	4862.0	-2.5	4862.0	4860.0	1106	1453

■ FTSE 100 INDEX OPTION (LIFFE) (*5164) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 9	Day's chge%
FTSE 100	5177.1	-0.2
FTSE 250	4781.6	[illegible]
FTSE 250 ex IT	4813.1	[illegible]
FTSE 350	2485.3	-0.2
FTSE 350 ex IT	2489.1	[illegible]
FTSE 350 Higher Yield	2498.7	+0.1

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 9 / Sch)

BELGIUM/LUXEMBOURG (Dec 9 / Frs.)

CZECH REP (Dec 9 / Koruna)

DENMARK (Dec 9 / Kr)

FINLAND (Dec 9 / Mka)

FRANCE (Dec 9 / Frs.)

GERMANY (Dec 9 / Dm.)

GREECE (Dec 9 / Drachma)

ITALY (Dec 9 / Lira)

NETHERLANDS (Dec 9 / Fls.)

NORWAY (Dec 9 / Kroner)

POLAND (Dec 9 / Zloty)

PORTUGAL (Dec 9 / Escudo)

SPAIN (Dec 9 / Pts.)

SWEDEN (Dec 9 / Kronor)

SWITZERLAND (Dec 9 / Frs.)

TURKEY (Dec 9 / Tk Lira)

PACIFIC

JAPAN (Dec 9 / Yen)

HONG KONG (Dec 9 / H.K.$)

INDONESIA (Dec 9 / Rupiah)

MALAYSIA (Dec 9 / MYR)

NEW ZEALAND (Dec 9 / NZ $)

SINGAPORE (Dec 9 / S$)

AUSTRALIA (Dec 9 / Aust$)

SOUTH KOREA (Dec 9 / Won)

TAIWAN (Dec 9 / TW $)

THAILAND (Dec 9 / Baht)

AFRICA

SOUTH AFRICA (Dec 9 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 9 / Can $)

4 pm close

MONTREAL (Dec 9 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY DECEMBER 8 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY DECEMBER 5 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	202.76	1.3	182.41	167.33	188.52	200.94	1.3	3.75	200.16	179.12	164.64	185.52	198.39	243.87	190.41	211.98
Austria (22)	189.40	-0.3	170.39	156.31	176.09	175.99	0.0	1.93	189.95	169.98	156.24	176.05	175.99	213.59	175.14	183.87
Belgium (27)	256.87	-0.1	231.08	211.99	238.82	233.71	0.3	2.95	257.03	230.01	211.41	238.23	232.96	261.11	221.31	225.21
Brazil (30)	235.62	-0.1	211.97	194.45	219.07	482.11	0.1	1.55	235.78	210.99	193.93	218.53	481.79	322.44	178.98	184.79
Canada (122)	216.93	1.1	195.16	179.03	201.69	223.42	1.1	1.76	214.66	192.10	176.57	198.96	221.08	233.86	178.27	186.98
Denmark (32)	436.21	0.9	392.43	360.00	405.58	404.03	1.2	1.27	432.33	386.69	355.61	400.71	399.18	496.21	334.25	334.47
Finland (28)	297.57	0.9	267.70	245.58	276.67	337.38	1.1	1.86	295.04	264.03	242.68	273.46	333.72	349.43	232.86	243.66
France (84)	235.06	0.3	211.46	193.99	218.55	220.68	0.7	2.42	234.27	209.64	192.69	217.13	219.23	246.23	203.73	207.28
Germany (58)	230.21	0.7	207.11	189.99	214.04	214.04	1.0	1.37	228.58	204.55	188.02	211.86	211.86	243.87	183.03	184.09
Hong Kong, China (66)	389.07	1.0	350.02	321.09	361.74	386.49	1.0	4.14	385.20	344.71	316.84	357.03	382.63	580.03	314.78	498.15
Indonesia (27)	92.34	-1.7	83.07	76.21	85.85	235.93	1.8	2.85	93.98	84.10	77.30	87.10	231.76	254.90	87.34	226.88
Ireland (16)	404.81	1.0	364.18	334.08	376.37	391.80	1.3	2.52	400.70	358.58	329.59	371.39	386.87	404.81	310.26	310.26
Italy (53)	110.99	-0.3	99.85	91.60	103.20	145.14	0.0	1.58	111.31	99.61	91.56	103.17	145.14	115.27	79.11	80.92
Japan (482)	97.82	-1.6	88.00	80.73	90.95	80.73	-1.2	0.98	99.38	88.93	81.74	92.11	81.74	141.12	95.91	136.54
Malaysia (107)	201.68	11.7	181.44	166.44	187.51	285.06	9.5	2.56	180.53	161.55	148.49	167.33	260.38	680.85	170.21	583.59
Mexico (27)	1732.26	0.4	1558.41	1429.63	1610.61	15362.14	0.0	1.58	1726.11	1544.67	1419.79	1599.85	15365.90	1901.88	1147.86	1197.37
Netherlands (19)	414.56	0.5	372.95	342.13	385.45	381.34	0.9	2.20	412.29	368.95	339.12	382.13	378.04	440.67	313.78	318.81
New Zealand (14)	82.65	0.3	74.35	68.21	76.84	73.27	0.6	4.22	82.40	73.74	67.78	76.37	72.84	96.47	75.37	91.87
Norway (38)	334.43	2.1	300.86	276.00	310.94	327.97	2.1	1.86	327.56	293.13	269.43	303.60	321.08	374.64	277.33	260.95
Philippines (22)	92.54	3.7	83.25	76.37	86.04	161.87	3.5	1.28	89.25	79.87	73.41	82.72	156.47	214.07	78.40	201.77
Singapore (42)	264.82	2.8	238.24	218.55	246.22	197.16	2.8	1.82	257.56	230.49	211.86	238.72	191.87	448.01	215.21	412.05
South Africa (43)	262.45	0.0	236.11	216.60	244.02	279.26	-0.1	3.11	262.37	234.79	215.81	243.18	279.59	370.12	258.47	318.48
Spain (33)	271.47	-0.3	244.23	224.04	252.41	310.65	0.0	2.18	272.43	243.79	224.08	252.50	310.65	277.33	198.92	201.69
Sweden (49)	489.92	1.0	440.75	404.32	455.51	566.30	0.7	1.83	485.17	434.17	399.07	449.68	562.33	538.84	402.43	410.76
Switzerland (32)	332.47	0.1	299.10	274.38	309.12	299.45	1.0	1.12	332.07	297.16	273.14	307.78	296.37	332.47	231.69	238.95
Thailand (39)	25.64	5.8	23.07	21.16	23.84	41.60	5.9	6.83	24.24	21.69	19.94	22.47	39.28	109.20	22.52	107.33
United Kingdom (215)	335.14	0.3	301.50	276.58	311.60	301.50	0.8	3.27	334.23	299.10	274.92	309.78	299.10	337.89	261.60	261.60
USA (642)	400.73	-0.1	360.51	330.72	372.59	400.73	-0.1	1.54	401.22	359.04	330.01	371.87	401.22	401.22	293.43	300.95
Americas (821)	363.89	-0.1	327.46	300.40	338.43	307.15	-0.1	1.55	364.22	325.94	299.59	337.58	307.35	365.75	268.24	275.10
Europe (706)	289.19	0.3	260.16	238.66	268.88	272.69	0.8	2.35	288.19	257.90	237.04	267.11	270.59	296.25	227.46	228.07
Nordic (147)	427.03	1.1	384.17	352.42	397.04	430.74	1.0	1.75	422.56	378.14	347.57	391.65	426.52	464.83	345.30	351.99
Pacific Basin (873)	110.18	-0.7	99.12	90.93	102.44	91.41	-0.5	1.63	110.97	99.31	91.28	102.86	91.85	158.99	107.50	154.25
Euro-Pacific (1579)	184.85	0.0	166.29	152.55	171.87	159.50	0.3	2.10	184.89	165.46	152.08	171.37	158.97	209.12	173.55	184.90
North America (784)	389.06	-0.1	350.01	321.09	361.73	389.81	-0.1	1.55	389.32	348.40	320.23	360.85	389.07	389.57	286.81	294.08
Europe Ex. UK (491)	258.28	0.4	232.36	213.16	240.15	250.39	0.8	1.82	257.28	230.24	211.62	238.46	248.50	267.07	202.63	204.95
Pacific Ex. Japan (391)	217.77	2.1	195.91	179.72	202.47	213.71	2.0	3.64	213.35	190.92	175.48	197.74	209.58	320.65	194.30	307.68
World Ex. US (1801)	188.76	0.0	169.81	155.78	175.50	166.22	0.4	2.08	188.70	168.86	155.21	174.90	165.63	212.89	176.94	186.96
World Ex. UK (2228)	249.65	-0.1	224.60	206.04	232.12	227.17	0.0	1.63	249.86	223.60	205.52	231.59	227.10	262.69	211.16	219.13
World Ex. Japan (1961)	336.53	0.2	302.75	277.73	312.89	329.82	0.3	1.92	335.99	300.57	276.36	311.41	328.84	344.35	264.51	268.14
The World Index (2443)	256.91	-0.1	231.12	212.02	238.87	233.53	0.1	1.81	257.03	230.01	211.41	238.23	233.66	268.47	216.61	222.79

 CONSTITUENT CHANGE 9/12/97: Name change Nordbanken to Nordbanken Holdings (Sweden). CONSTITUENT CHANGE WITH EFFECT 10/12/97: Deletion: Elektrowatt (Bearer) (Switzerland). Latest prices were unavailable for this edition. Markets closed 8/12/97: Austria, Italy and Spain

Emerging markets: IFC investable indices

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 3 1992; (4)Jan 8 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993. Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close December 9

[illegible]

- X - Y - Z -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
87⅞	61½	Xerox x	1.28	1.7	19	8143	77	75¾	75¾	-2⅛
59⅛	40½	Xtra Corp x	0.80	1.6	18	108	52⅝	52⅜	52⅜	-⅛
25	20⅝	Yankee Egy	1.34	5.4	15	118	24⅝	24⅞	24⅝	+⅛
56	37⅞	York Int	0.48	1.1	15	745	44⅜	43⅞	43⅞	-⅞
8¼	4	Zapata	0.28	4.1	57	34	6⅞	6¾	6⅞	+⅛
13⅞	7¼	ZenithEl				1258	7½	7⅜	7⅜	
28⅝	24⅝	Zenith Nat	1.00	3.9	15	233	26½	25⅝	25⅞	-⅛
8⅞	7⅛	Zenix Inc	0.76	9.3		51	8⅛	8⅛	8⅛	-⅛
29½	17¼	Zero	0.12	0.4	20	619	u29⅝	28½	29⅝	+1⅛
14	10½	ZweigFd♣	1.32	9.9		168	13⅞	13⅜	13⅜	-⅛
9⅝	8	Zweig Totl x	0.84	8.8		772	9⅝	9⅛	9½	-⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sh-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8110.84	8149.13	8050.16	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.54	104.86	104.96	104.96 (4/12)	101.03 (14/4)	104.96 (4/12/97)	54.99 (1/10/81)
Transport	3352.43	3315.94	3305.64	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	258.97	258.89	258.26	261.16 (1/12)	209.47 (25/4)	261.16 (1/12/97)	10.53 (8/7/32)

DJ Ind. Day's high 8186.88 (8209.56) Low 8057.37 (7980.04) (Theoretical♠)
Day's high 8158.08 (8188.29) Low 8083.73 (8017.09) (Actual♠)

Standard and Poors	Dec 8	Dec 5	Dec 4	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	982.37	983.79	973.10	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials♥	1137.70	1140.07	1126.90	1146.82 (7/10)	885.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial♥	120.83	120.78	118.61	120.83 (8/12)	80.75 (2/1)	120.83 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	513.44	514.31	509.44	514.31 (5/12)	389.47 (11/4)	514.31 (5/12/97)	4.84 (25/4/42)
Amex Comp	673.49	670.27	665.80	721.80 (7/10)	541.20 (28/4)	721.80 (7/10/97)	524.20 (16/7/95)
NASDAQ Comp	1651.54	1633.90	1613.42	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	442.03	438.08	434.91	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.38 (7/12/93)

■ RATIOS

	Dec 5	Nov 28	Nov 21	Year ago
Dow Jones Ind. Div. Yield	1.68	1.74	1.73	2.05
	Dec 3	Nov 26	Nov 19	Year ago
S & P Ind. Div. yield	1.46	1.50	1.50	1.83
S & P Ind. P/E ratio	26.33	25.78	25.38	23.05

US DATA

■ MARKET ACTIVITY

● Volume (million)	Dec 8	Dec 5	Dec 4
NYSE	493.480	583.590	637.030
Amex	24.739	28.709	31.014
NASDAQ	642.229	671.068	705.525

NYSE	Dec 8	Dec 5	Dec 4
Issues Traded	3,477	3,421	3,443
Rises	1,602	1,721	1,554
Falls	1,346	1,168	1,339
Unchanged	529	532	550
New Highs	243	188	257
New Lows	23	48	53

■ NYSE TRADING ACTIVITY — Volume : 493,460,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Compaq	5,848,400	65½	+[illegible]
Pepsico	3,879,100	36¼	-⅝
Cabletron	3,854,800	15⅞	+½
Coca Cola	3,672,000	63¾	-2¼
Texas Instr	3,328,100	47⅞	+1¼
Ain Stores	3,134,300	28¾	-¼
Boeing	3,073,100	51¼	-¾
Nationsbank	3,064,800	62	+1
Sterry 2000	2,933,100	32¼	+2⅝
Unisys Cp	2,878,000	15⅞	+⅛

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Sterry 2000	32⅛	+2⅝	+8.8
Depot Grwty	57	+4½	+8.6
Veritas DGC	43⅞	+3½	+8.7
Primark	38⅞	+2⅞	+8.2
Downs			
Singer	12⅝	-1⅜	-10.8
TJX	35⅜	-2⅞	-7.6
Hilton Hotel	29¼	-2	-6.4
Mid Ocean	58⅞	-3¾	-6

■ NASDAQ TRADING ACTIVITY — Volume :642,229,000

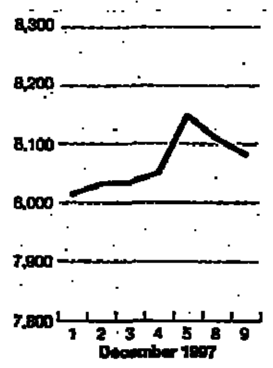
■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Appld Matrl	11,805,600	35⅛	+⅛
Intel Corp	10,015,600	78⅞	+⅞
3Com Corp	9,119,800	37⅝	+1⅞
Oracle Cp	8,160,100	32⅝	+1⅞
Dell Cmptr	7,689,800	86	+2¼
Quantum Cp	7,114,800	28⅛	+⅛
Ascend Com	6,715,400	28⅞	+¾
Microsoft	6,217,000	146⅝	+3
KLA Tencor	5,667,000	41½	+1⅞
Nextel Com	4,674,300	34⅞	-⅛

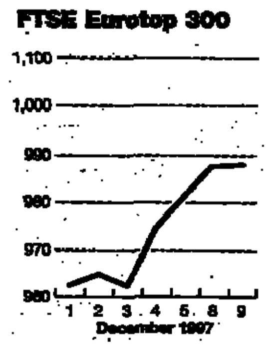
■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Peoples Bc	24½	+5½	+29
SLH Corp	69	+15¼	+28.4
OrbitFr	21½	+3¾	+21.8
CMG Info	28½	+4⅝	+19.4
Downs			
Bird Corp	14	-3	-17.7
Iona Tech	17⅞	-3⅛	-14.9
Chirex	21¼	-3⅝	-14.6
TVG Tech	325	-50	-13.3

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

■ TOKYO TRADING ACTIVITY — Volume : 470,000,000

[illegible]

FRANCE

[illegible]

■ PARIS TRADING ACTIVITY — Volume : 418,465,890

[illegible]

GERMANY

[illegible]

■ FRANKFURT TRADING ACTIVITY — Volume : 11,582,800

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Commerzbk	1,522,208	68.1	+1.75
Deutsche Bk	813,615	124.3	+2.45
Dt Telekom	762,964	34.9	-0.9
Dresdner Bk	746,090	81.4	+2.45
BASF	620,756	64	-0.35
Lufthansa Rg	599,682	34.74	+0.24
Bayer	552,885	65.9	-1.55
Siemens	359,761	109.3	-1.95
Daimler-Bz	358,407	126.15	-2.35
Hoechst	347,685	63.9	-0.45

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
VEW Hldgs	28.7	+1.2	+4.7
Hornbach	115	+5	+4.5
AKDO Far	250	+9	+3.8
Vossloh	97.5	+3.2	+3.4
Downs			
Rieol	50	-4	-7.4
Sixt	140.5	-8	-5.4
Pfaff	61.9	-3.3	-5.1
Leo Hall	67	-3	-4.3

UK

[illegible]

■ LONDON TRADING ACTIVITY — Volume : 706,300,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Centrica	27,688,770	93	-½
ASDA	15,684,140	174¼	+¼
Grand Met	13,010,530	581	-1
Shell T&T	12,229,050	443	-1
Safeway	11,645,120	338	+13
Welr Grp	10,230,310	277	+2
BAT Inds	10,049,880	555	+3
GEC	9,867,869	408	-3
Lloyds TSB	9,586,493	770½	-15
Royal & Sun	9,359,133	619½	+13½

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Intell Env	24½	+7	+40.0
Feedback	24½	+6	+32.4
Hiscox Sel	142	+29	+25.7
Helma	118½	+16	+15.6
Downs			
Partners	90	-71½	-44.3
Delcam	185	-62½	-27.5
M Clark	183½	-46½	-20.2
Sleepy Kids	14½	-2	-12.1

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	984.70	978.90	-5.70	986.20	976.50	102,321	292,984
Mar	993.00	989.00	-6.80	993.00	987.80	21,305	115,438

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	16430.0	16710.0	+610.0	16740.0	16430.0	21,898	95,079
Mar	16470.0	16750.0	+630.0	16760.0	16440.0	12,952	115,586

Open interest figures for previous day.

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2930.0	2967.0	+25.0	2980.0	2929.0	17,054	43,685
Jan	2941.0	2974.0	+25.0	2983.5	2941.0	229	4,584
■ DAX							
Dec	4225.0	4195.0	-21.0	4231.5	4171.0	16,342	70,119
Mar	4258.0	4232.0	-23.5	4265.0	4210.0	2,623	13,207

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2506.00	2487.00	-27.00	2519.00	2485.00	4,500	30,373
Jan	2520.75	2497.00	-19.50	2526.25	2497.00	1,438	1,425
■ SOFFEX							
Dec	6090.0	6100.0	+14.0	6145.0	6085.0	4,254	22,058
Jan	-	6105.0	+14.0	-	-	469	2,297

WORLD MARKETS AT A GLANCE

Country	Index	Dec 9	Dec 8	Dec 5	1997 High	1997 Low	⚘ Yield	⚘ P/E
Argentina	General	23291.61	(c)	23347.82	25771.70 22/10	18237.37 2/1	3.17	19.6
Australia	All Ordinaries	2582.8	2587.0	2557.2	2778.30 25/9	2299.29 28/10	3.57	18.4
	All Mining	581.5	583.2	576.2	997.19 24/2	541.10 27/11		
Telstra rose to a record A$2.83 – a 46.5 per cent premium to the issue price – in an otherwise quiet session.								
Austria	Credit Aktien	(u)	(c)	446.8	474.42 2/10	374.40 9/1	1.98	15.1
	Traded Index	1323.80	(c)	1303.26	1489.49 31/7	1136.22 9/1		
Sentiment improved after resistance levels in cash and futures markets broken. Robust futures market offered support.								
Belgium	BEL20	2487.75	2511.74	2503.74	2621.90 28/7	1871.86 2/1	2.27	16.6
ING's offer for BBL continued to fuel heavy trading in an otherwise dull session								
Brazil	Bovespa	9877.0	10079.0	10080.0	13617.00 8/7	6985.50 2/1	0.49	na
⚘*Market tracked lower in morning trade after opening 1.5 per cent down, mirroring weak start on Wall Street.*								
Canada	TSE 100♦	413.93	412.39	407.79	430.46 7/10	342.12 11/4	1.78	20.1
	Metals Mins♦	3970.28	3975.22	3973.51	5991.76 10/3	3781.85 28/11		
	Composite♦	6806.10	6787.70	6724.40	7209.98 7/10	5578.30 14/4		
	Portfolio§§	3466.38	3454.58	3411.90	3547.89 7/10	2846.82 11/4		
⚘*Ignored slack start on Wall Street and a dull morning for gold stocks to push marginally higher, led by banks.*								
Chile	IGPA Gen♥	4953.07	(c)	4966.75	5866.71 4/7	4812.42 2/1	3.59	16
China	Shanghai B	60.40	59.82	58.19	98.21 7/5	54.11 1/12	1.2	71.3
	Shenzhen B	104.59	104.99	102.41	184.26 6/5	94.93 2/12		
Domestic institutions bought index heavyweights such as Zhejiang Power, while foreign institutions continued to sell.								
Colombia	IBB	(u)	(c)	1406.02	1533.72 16/10	844.41 2/1	na	na
Czech Republic	PX 50	472.2	468.0	465.7	629.60 25/2	458.58 1/12	na	na
Denmark	CopenhagenSE	657.85	658.19	650.36	662.81 6/10	470.14 2/1	1.31	20.8
Shares edged higher, consolidating after the recent days of record advances.								
Egypt	Cairo SE Gen	326.72	333.98	339.48	– –	– –	na	na
Selling pressure continued to outstrip demand and foreign investors remained sidelined.								
Finland	HEX General	3421.20	3456.28	3422.96	3880.91 22/10	2483.28 2/1	2.32	14.4
Upbeat mood dented by fall in Nokia, which came under pressure from weakness of technology sector in US.								
France	SBF 250	1918.22	1905.41	1893.72	2093.43 31/7	1533.19 2/1	2.49	17.5
	CAC 40	2959.40	2932.47	2910.09	3094.01 3/10	2258.97 2/1		
Volume in Paribas surged as rumours of imminent bid swept through the market and lifted the shares 6.7 per cent.								
Germany	FAZ Aktien	1381.08	1388.57	1373.17	1481.44 31/7	968.21 2/1	1.42	20.4
	Commerzbank	4063.80	4088.40	4049.30	4336.70 31/7	2875.98 2/1		
	DAX‡	4184.91	4223.36	4170.09	4438.93 31/7	2848.77 2/1		
Firm performances seen in the Frankfurt-based banks in an otherwise broadly weaker session.								
Greece	Athens SE	1553.75	1568.81	1551.29	1794.14 8/10	934.54 2/1	2.94	16.3
Late demand for blue chips trimmed losses which followed unexpected rise in 12-month T-bill rates in Monday's auction.								
Hong Kong	Hang Seng	11490.66	11722.94	11527.80	16673.27 7/8	9059.89 28/10	3.37	11.4
	HSCC Red Chip	2041.57	2070.83	2026.55	4110.55 27/8	1665.38 28/10		
Investors lost nerve in light of regional woes and took the profits after three-day winning streak.								
Hungary	Bux	7485.75	7400.77	7270.02	8483.80 5/8	4291.38 6/1	na	na
Shares at record lows for the third successive session, with malaise blamed on shortage of new issues.								
India	BSE Sens.	3391.59	3408.19	3469.08	4548.02 5/8	3225.24 2/1	na	na
	Crisil 500	627.11	637.73	639.22	843.29 5/8	622.71 2/1		
Selling by foreign funds combined with local investor offloading ITC holding to send market lower.								
Indonesia	Jakarta Comp.	425.50	423.61	414.78	740.83 8/7	389.88 3/12	2.8	12.1
Midday losses were recouped following a government denial of early rumours that the president was ill.								
Ireland	ISEQ Overall	4062.00	4009.02	3963.07	4062.00 9/12	2725.97 2/1	2.23	19.2
Further demand for financial stocks helped take market into record territory.								
Israel	Mishtanim 100	291.12	289.09	(u)	311.76 6/8	214.16 2/1	na	na
Unusually heavy turnover in Bank Leumi, on last day to convert Leumi warrants, helped market ahead.								
Italy	BCI Comit. 30	235.37	(c)	234.99	242.86 28/9	155.74 2/1	1.92	20.3
	Banca Com Ital	988.41	(c)	984.58	1005.88 22/10	680.42 2/1		
	Mibtel General	15786.0	(c)	15754.0	16059.00 28/9	10498.00 2/1		
Shares failed to make ground in spite of surge in banking shares, which rallied on hopes of consolidation in sector.								
Japan	Nikkei 225	16686.51	16131.57	16424.48	20681.07 16/6	15082.82 14/11	0.93	42.2
	Nikkei 300	248.85	242.95	246.30	303.71 28/7	229.77 14/11		
	Topix	1249.07	1221.31	1236.43	1560.28 26/6	1177.82 14/11		
	2nd Section	1265.32	1263.30	1275.16	1849.25 30/6	1263.30 8/12		
Surged 3.4 per cent after news that the government may issue Y10,000bn in bonds to support the financial system.								
Jordan	Amman SE	171.17	171.33	(c)	– –	– –	na	na
Activity bolstered by block sales in leading blue chips in otherwise weak trade.								
Malaysia	KLSE Comp.	628.15	676.47	607.40	1271.57 25/2	528.12 28/11	3.07	10.3
Plummeted 7 per cent as investors locked in gains made since Friday's announcement of austerity measures.								
Mexico	IPC	5086.54	5110.38	5110.16	5368.49 21/10	3360.49 2/1	1.19	14.9
⚘*Share prices posted losses at the start, taking lead from Wall Street.*								
Morocco	CASA	664.38	664.93	664.69	669.75 23/4	451.98 3/1	na	na
Leading stocks traded within tight range in a largely sluggish market.								
Netherlands	CBS TtlRtnGen	1088.7	1088.8	1079.2	1104.80 7/8	730.80 2/1	2.13	21.5
	CBS All Shr	623.0	624.1	618.7	684.40 7/8	429.80 2/1		
Shares lower on the back of softening bonds and a weaker dollar.								
New Zealand	Cap. 40	2410.08	2402.49	2394.29	2835.48 22/10	2182.81 28/10	3.86	20.3
Publisher INL up 10 cents to NZ$9.25 ahead of today's listing of its 48 per cent held Sky Network TV.								
Nigeria	SE All-Share	6370.85	6360.29	6360.26	– –	– –	na	na
Demand for cheap brewery stocks helped shore up market.								
Norway	Oslo SE Ind	2127.71	2122.06	3091.46	2287.56 22/10	1639.03 2/1	1.92	14.5
Banks and the offshore sector continued to provide a lift.								
Pakistan	Karachi SE	1786.51	1803.97	1789.35	2087.98 22/10	1341.31 7/1	na	na
Speculators booked profits as rumoured imminent devaluation failed to materialise.								
Peru	Lima Gen	1796.14	(c)	1783.46	2288.49 10/7	1429.78 2/1	na	na
Philippines	Manila Comp	1979.50	1957.21	1900.06	3447.80 3/2	1740.18 28/10	1.33	11.4
Property index fell 2.8 per cent over fears of high interest rates. Investors took heart on passage of tax reform bill.								
Poland	WIG	14910.9	15028.6	15131.5	18330.40 19/2	14223.70 25/11	1.69	11
Shares weak for second straight day as profits were taken after recent rise.								
Portugal	BVL 30	3862.25	(c)	3884.72	3998.81 3/10	2165.57 2/1	1.64	26.5
	PSI 20	8513.10	(c)	8571.40	8803.52 3/10	5152.34 2/1		
Profit-taking and weakness on Wall Street sent shares lower.								
Russia	RTS	387.34	388.13	382.42	571.66 6/10	213.38 6/1	na	na
Leading shares corrected lower as investors took profits.								
Singapore	SES All-S'pore	449.53	455.71	446.31	573.09 17/2	380.78 28/10	2.04	14.9
	Straits Times	1734.22	1753.63	1713.77	2271.88 20/1	1487.83 28/10		
Market unsettled by news of January large vehicle quota prices plunging to S$50 from last month's S$64,100.								
Slovakia	SAX	177.23	175.91	172.39	208.84 21/3	164.81 22/7	na	na
Oil refiner Slovnaft, sharply up on Monday, did not trade on bourse floor although 600,000 shares changed hands directly.								
South Africa	JSE Gold	678.5♥	682.3	670.1	1598.18 27/2	678.18 5/12	3.18	12.4
	JSE Indl.	7435.6♥	7438.3	7453.5	9314.20 7/8	7493.30 28/10		
Early gains trimmed as bullion worries weighed on overall sentiment.								
South Korea	KoreaCmpEx**	388.00	414.83	434.12	792.29 17/6	376.87 2/12	2.86	11.4
Shares fell 6.5 per cent as the won dropped to a record low and turbulence in the currency market depressed investors.								
Spain	Madrid SE	631.71	(c)	626.50	640.28 1/10	434.64 2/1	2.32	21.3
Banks in focus on renewed talk of concentration in sector.								
Sri Lanka	CSE All Share	685.70	680.20	678.80	888.70 31/7	606.79 2/1	na	na
Driven by gains on retail stocks and heavy local buying of Watawala Plantations and Colombo Dockyard.								
Sweden	AffarsvardsGen	3061.8	3080.9	3061.4	3315.89 7/8	2378.58 2/1	1.78	22
Investors deserted Ericsson in wake of weakness in US technology sector.								
Switzerland	SMI Index	6103.2	6095.3	6009.0	6103.20 9/12	3922.90 7/1	1.08	23.1
	SPI General	3803.55	3800.67	3761.85	3803.55 9/12	2598.22 6/1		
Attention remained focused on banks after Monday's confirmation of the UBS-SBC merger.								
Taiwan	WeightedPr.**	8333.49	8402.17	8166.87	10116.84 28/8	6844.75 6/1	1.01	25.7
A volatile market saw early gains wiped out by profit-taking, in spite of continuing bullish sentiment.								
Thailand	Bangkok SET	390.67	401.80	(c)	858.97 22/1	377.38 3/12	7.16	9.2
Banking and finance sectors were the biggest losers, as the spiralling baht continued to drain confidence.								
Turkey	IMKB Nat 100	2925.0	2857.00	2868.00	3543.88 23/10	885.60 2/1	1.96	18.9
Shares recouped some of Monday's heavy losses as technical recovery emerged.								
Venezuela	IBC	8770.42	(c)	8803.11	10817.33 17/10	6861.59 12/3	na	na
Zimbabwe	ZSE Industrial	(u)	(u)	7822.84	12081.95 5/8	7822.84 5/12	na	na
WORLD	FT/S&P World(S)	(u)	*256.91	257.03	269.47 7/10	218.81 14/4	na	na
	MS Capital IntS	949.1*	947.9	948.2	981.89 31/7	794.50 14/4	na	na
CROSS-BORDER	Eurotrack 100	2688.89	2683.01	2656.83	2794.80 7/8	1893.88 2/1	na	na
	FTSE E100	2285.55	2284.26	2265.09	2355.95 7/8	1582.98 2/1	na	na
	HSBC JC Dvgs	(u)	278.72	272.96	434.83 6/8	238.55 28/10	na	na
	ING Barings Emrg	145.58	147.29	146.00	186.81 9/7	136.75 13/11	na	na

** Sat Dec 6 : Taiwan Weighted Price 8243.76; Korea Comp Ex 435.73. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ Xetra/DAX after-hours index: Dec 9 - 4187.13 -21.01. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ⚘ Yields and P/E ratios are based on Datastream Total Market Indices. ⚘ Midsession.

NASDAQ NATIONAL MARKET

4 pm close December 9

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close December 9

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

[illegible]

Company	Mid price	Change on day	Volume	High	Low
[illegible]					

[illegible]

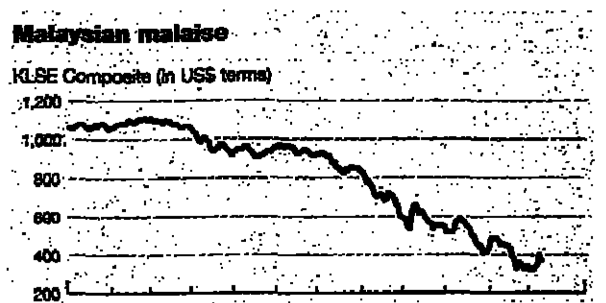
Market rally pauses for news from Japan

WORLD OVERVIEW

The December stock market rally paused for breath yesterday, as the markets awaited details of today's Japanese government financial package, *writes Philip Coggan.*

Talk that the Japanese government might issue some Y10tr of bonds to deal with the financial crisis had divergent effects on the Tokyo stock and bond markets, with the Nikkei 225 average up more than 3.4 per cent while the benchmark government bond fell more than a point.

And Asian markets continued to be volatile, with details of the parlous state of Korean finances prompting a hit to both the stock market and the won, while the Malaysian markets shed some of Monday's massive gains.



IDEA, the economic analysis group, said the won, at an historic low of 1,465 to the dollar yesterday, could fall to 1,600-1,800 to the dollar in the medium term and added that "some well-placed sources have already been pondering whether South Korea may actually need an even larger bail-out".

In Europe, the German employment data showed an 11,000 rise in the jobless total, but the figures still left open the question of whether the Bundesbank would increase interest rates in the New Year. The Xetra DAX index dropped back below 4,200.

A modest rise in the US dollar, and some continued strength in financial stocks in the wake of the SBC/UBS merger, were generally supportive for European bourses.

But an initial decline on Wall Street, as technology stocks reacted to the Oracle profits warning, acted as a drag in afternoon trading.

The latest strategy document from Salomon Smith Barney maintains an overweight position on continental Europe, especially in Scandinavia, where the countries' markets "exhibit attractive valuations, rapid growth projections, solid earnings revisions and upward price momentum."

The US investment bank adds that "extremely healthy growth prospects and low risks would make Ireland our number one market. Its forecast 1998 gross domestic product growth at 6.4 per cent is almost twice as fast as the developed world average. The market's attractiveness also comes from favourable valuations (trailing price-earnings ratio of 16 and forecast p/e of 14) and a boost from momentum."

However, on valuation terms alone, the best prospects in the world could be found in Kuala Lumpur.

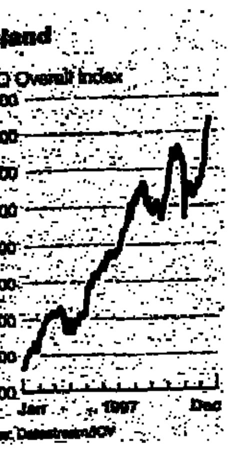
"While risks and downward momentum (company earnings and price) still remain high, the extended equity price decline has resulted in Malaysia becoming the most attractive market based on valuation."

MARKET FOCUS

Irish budget wins friends

Charlie McCreevy, Ireland's finance minister, has lived up to his reputation as the businessman's friend. In last week's budget the former accountant halved the rate of capital gains tax and made cuts in corporation tax.

The Irish stock market has risen 5 per cent since budget day, and is now 45 per cent up in the year, closing at a record high yesterday. Only Switzerland among European exchanges has outperformed Ireland.



Matt Minch of Tilman Asset Management expects more active trading as shareholders, who until now were put off realising gains, take advantage of the reduction in capital gains tax from 40 per cent to 20 per cent.

For some investors, the benefit of the cut is partly offset by the reduction in tax allowances. But the biggest impact the budget will have on the stock market is from the reduction in corporation tax, which will come through directly in the form of enhanced earnings and will allow companies to raise dividends.

Dublin broker Davy estimates that 20 per cent of the corporate sector's earnings are taxed at the standard corporate tax rate – the rest enjoy the 10 per cent preferential rate for manufacturing and traded services. It projects a 6 per cent boost to earnings as a result of the budget.

The future earnings picture has also been enhanced by Dublin's plans to introduce a uniform 12.5 per cent tax rate for all business sectors by 2006.

Among individual equity sectors, the main beneficiaries will be financial stocks – the banks and building societies. Already the banks index is up 10 per cent on a week ago, and 70 per cent in the year to date.

Traders also welcomed the government's decision to limit its borrowing to less than I£100m and eliminate all exchequer debt by 2000. This should free up more institutional money for the equity market.

The Irish market has survived the recent turmoil better than most. For instance, the construction sector has almost doubled in value this year, on the back of the property boom.

Strong gains have been recorded by the resource sector, dominated by the 60 per cent rise in Tullow Oil over the past three months. Brokers report renewed appetite for stocks exposed to the local economy – although many of the larger companies are now internationally focused.

But the longer term remains dominated by the European single currency. With the advent of the euro, Irish institutional investors will no longer have to match their Irish pound liabilities with Irish pound assets.

Instead they will be able to diversify their portfolios out of Irish stocks into equities listed in other European countries that will also be participating in the euro. Over the next few months, this is the central challenge for the larger Irish companies that have long relied on domestic funds and institutions to provide ballast to their share registers.

John Murray Brown

Oracle sends tech sector tumbling

AMERICAS

News of weak earnings in the technology and multi national sectors sent a chill through the US stock market, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was down by 25.37 or 0.31 per cent to 8,085.47. The broader Standard & Poor's index also had slight losses, down 2.44 at 979.93.

Casting a pall on the market were technology shares, with the computer sector's second largest software producer, Oracle, plunging a stunning 29 per cent or $9⅞ to $22⅞. The company issued lower-than-expected earnings on Monday which sparked downgrades from Goldman Sachs, PaineWebber and others yesterday.

The Nasdaq composite, which is weighted in technology shares, was down 17.17 or 1.04 per cent to 1,634.37. Oracle's rival Microsoft fell $1⅞ to $144⅞.

Other computer shares also lost ground, with the Pacific Stock Exchange index down 4.63 or 1.49 per cent to 306.01. In the networking sector Bay Networks fell $1⅝ or more than 5 per cent to $28⅞. Texas Instruments, the semiconductor chip maker, came off $1⅞ to $46½.

"It's a mixed bag today," said Michael Metz, chief investment strategist at Oppenheimer. "Deteriorating earnings are a wake-up call on the strong dollar and currency translations, and there is still a question mark as to *capital spending in the wake* of Asia.

"But there continues to be an enormous amount of money looking for day-to-day performance in the market," Mr Metz added.

Coca-Cola, whose shares slid on Monday after an analyst downgrade, weakened further by $⅞ to $63¾. Hilton Hotels, which warned late on Monday that fourth-quarter earnings would fall short of expectations, slid $1¼ or more than 5 per cent to $27¾.

Two major restructurings were also announced. Philip Morris said it would reorganise its food operations. The stock slid $¼ to $44¾. And toy manufacturer Hasbro gained $⅞ to $30⅞ after the company announced plans for deep cuts in its work force.

TORONTO ignored the slack start on Wall Street *and a dull morning for gold* stocks to push marginally higher following further good gains for the heavyweight banking sector. The 300 composite index was up 11.29 at 6,799.00 at noon.

Banks continued to respond to hopes for an official downward nudge for interest rates and positive talk about the sector's earnings outlook. Bank of Montreal rose C$1.05 to C$66.85 and Toronto-Dominion Bank added 30 cents at C$54.20.

Industrials were mixed. BCE gained 55 cents to C$47.75, but Newbridge Networks came off C$2.25 to C$58.50. Drinks and entertainments leader Seagram dipped 15 cents to C$45.65.

Golds slipped to the bottom of the sector rankings *after a dull local opening for* the bullion price.

São Paulo tracks lower

SAO PAULO tracked lower in morning trade after opening 1.5 per cent down, mirroring a weak start on Wall Street. By mid-session, the Bovespa index had retreated 2% to 9,876 in thin volume.

Traders said the market was expected to be soft ahead of next week's options expiry *because major investors* were likely to stay on the sidelines. Market bellwether Telebras led the market downwards, giving up R$2.30 to R$124.

MEXICO CITY posted losses at the start, also taking its cue from events in the US. By mid-session the IPC index was 19.54 lower at 5,090.84. Trading, however, was extremely thin.

Dealers said there was little activity because many institutions had closed their books for the year. They also said that investors felt little *inclination to buy until the* government had resolved its dispute with congress over the 1998 budget. Congress has proposed cuts in value added tax but these have been vehemently opposed by the minority government.

Bid talk boosts French banks

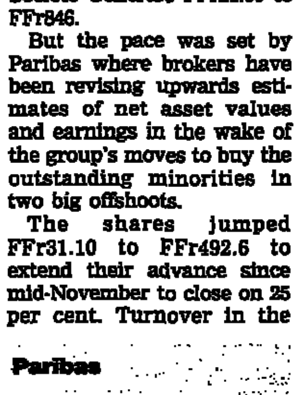
EUROPE

Banks shares were again the central focus of European bourses. **PARIS** saw volume in Paribas surge dramatically as rumours of an imminent bid swept through the market and lifted the shares 6.7 per cent.

As the excitement spread across the sector as a whole for the second day running, Cie Bancaire rose FFr48.00 to FFr989 for a two-day gain of 8 per cent. BNP gained FFr9.20 to FFr322.8, CCF FFr17.00 to FFr417 and Société Générale FFr21.00 to FFr846.

But the pace was set by Paribas where brokers have been revising upwards estimates of net asset values and earnings in the wake of the group's moves to buy the outstanding minorities in two big offshoots.

The shares jumped FFr31.10 to FFr492.6 to extend their advance since mid-November to close on 25 per cent. Turnover in the stock was the second heaviest of the year, at FFr1.5bn, with 3.1m shares changing hands.



Credit Lyonnais jumped FFr40.90 or 14.3 per cent to FFr327.9 on the suggestion *that the government had* been dropping hints that the bank's privatisation would be sooner rather than later.

Outside the financials, Thomson CSF jumped FFr10.50 or 6.4 per cent to FFr175.5 following the defence industry agreement between Germany, France and the UK. The CAC 40 index closed up 26.93 at 2,959.40 in 19.4m shares traded.

ZURICH saw further sharp gains in UBS, up SFr51 to SFr2,196 on top of Monday's *11 per cent surge. SBC, seen* as the major beneficiary of the union, picked up SFr3 to SFr475.50. It rose 5.6 per cent the previous day.

Yesterday's rise came as the exchange authorities opened what they called a routine inquiry into possible insider trading ahead of this week's merger announcement. UBS shares jumped 24 per cent and SBC by 20 per cent in the two weeks before confirmation of the two banks' union.

At the close, the SMI index edged 7.9 higher to a second consecutive record close at 6,103.2.

Elsewhere among the banks, a SFr5.50 rise to SFr226 in CS Group was *attributed to speculation* that it was interested in acquiring Germany's Commerzbank.

Baloise, seen as a merger or takeover candidate, gained SFr25 to SFr2,745, and Swiss Life, in which UBS has a 25 per cent stake, rose SFr45 to SFr1,172.

FRANKFURT featured firm performances by the banks in an otherwise broadly weaker session that closed with the Xetra Dax index registering a loss of 21.01 at 4,187.13.

Among the three Frankfurt-based banks benefiting from speculation of further consolidation, Deutsche Bank picked up DM1.40 to DM124.80, Dresdner Bank climbed DM1.80 to DM124.80 and Commerzbank was *marked DM1.34 higher* at DM68.34.

Allianz, whose life insurance unit announced plans for a capital increase, rose DM2.40 to DM437.40.

Daimler-Benz lost DM1.10 to DM126.90 after it said its new compact A class car would go on sale in February as planned.

MILAN failed to make ground in spite of a surge in banking shares, which rallied on hopes of further consolidation in the sector. The Italian market was closed on *Monday so yesterday was* the first chance for investors to respond to the merger of UBS and SBC. Overall, the Mibtel index closed just 32 higher at 15,786.

Merger speculation pushed San Paolo L1,225 higher to L17,000, while Credito Italiano rose L267 to L5,310. BCI advanced L218 to L5,350.

However, analysts were cautious. John Leonard, banking analyst at Salomon Brothers, said that while Italy's fragmented financial sector cried out for consolidation, the pace of change was likely to remain slow because of continuing difficulties in rationalising merged banks.

Telecommunications *stocks lost ground after* a press report that TIM, the mobile operator, intended reducing its rates by 30 per cent to intensify pressure on its Olivetti-controlled competitor, Omnitel. TIM refused to comment.

Investors concerned about a possible price war marked down TIM by L60 to L7,250, while Telecom Italia, the group's parent, surrendered L197 to L10,865.

MADRID also saw interest in banking stocks, with BCH in particular in demand on merger hopes. The shares ended Pta185 better at Pta3,285. Santander also attracted buyers after Morgan Stanley added the stock to its European model portfolio. The shares rose Pta50 at Pta4,725. The general index added 5.21 at 631.71.

BUCHAREST fell to a record low for the third successive session, with the BET index closing at 622.62, down 28.02.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and James Montgomery.

FTSE Actuaries Share Indices — European series

December 9

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	988.01	+0.03	+0.32	2.28	0.01	995.06
FTSE Eurotop 100	2285.55	+0.06	+1.29	–	–	–
FTSE Eurotop 300 Regions						
300 UK	1002.93	–0.20	–1.97	3.15	0.00	1018.33
300 Ex-UK	980.11	+0.17	+1.64	1.77	0.02	982.49
300 Eurobloc	969.39	+0.36	+3.43	1.98	0.04	972.91
300 Ex-Eurobloc	1002.18	–0.19	–1.86	2.49	0.00	1011.61
FTSE Eurotop 300 Economic Groups						
Resources	949.73	+0.26	+2.43	2.89	0.00	962.95
General Industries	932.42	–0.51	–4.80	2.11	0.00	934.65
Consumer Goods	974.70	–0.39	–3.85	1.88	0.00	985.18
Services	992.85	–0.55	–5.49	2.24	0.00	999.64
Utilities	1016.47	–0.10	–1.03	2.95	0.00	1024.51
Financials	1039.58	+0.89	+9.22	2.21	0.05	1045.23

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved. Name Change: Nordbanken to Nordbanken Holding (Sweden) (Financials).

SOUTH AFRICA

Shares in Johannesburg had a mixed session. Industrials and golds edged lower, but the all-share index managed to cling on to the upside *with a gain of 2.8 at 6,158.9,* thanks to strong financials.

Weak inflation figures raised hopes for an interest rate cut and financials moved ahead. But the industrial index gave up 2.7 at 7,435.6 and golds stayed dull, easing 5.8 to 676.5 in spite of steadier bullion.

Kuala Lumpur falls back 7%

ASIA PACIFIC

A rapid cooling of foreign enthusiasm left **KUALA LUMPUR** 7 per cent lower, bringing to an end a sequence of five consecutive rising sessions. Having gained 23 per cent since December 2 – half of it on Monday after the government announced tough austerity measures – the composite index retreated 47.32 to 629.15.

Analysts said foreign buying, which triggered the recent rise, had dried up after the index rose 11 per cent on Monday. "Foreign *institutions were shocked by* Monday's gains, which were largely driven by the orders they left over the weekend," said David Bates of Paribas Asia Equity.

He added that rising share prices had also flushed out *some local profit-takers,* contributing to the sudden slide. However, market volume was low, with just 466m shares traded.

Shares in Diversified Industries fell 15 cents to M$1.75 as the group, which manufactures the *Proton* car, said it would review its spending programme in light of the government's belt-tightening measures.

SEOUL was also sharply lower on worries about deepening liquidity shortages in the money market and the plunging currency. The composite index closed 26.83 or 6.5 per cent lower at 388.

Sentiment was further soured when Kyung Nam Wool Textile was suspended on rumours that it was unable to meet debt payments.

Analysts said local institutions were increasingly pinning their hopes on foreign investors stepping up their buying once the ceiling on *foreign purchases of Korean* stocks was lifted from 26 per cent to 50 per cent from next Monday.

TOKYO rallied as investors took heart from signs that the government was considering new bond issues *totalling Y10,000bn in an* attempt to support Japan's financial sector, *writes Michiyo Nakamoto.*

The Nikkei 225 average rose 554.94 or 3.4 per cent to 16,686.51 on growing indications that the plan to issue *new bonds was being taken* seriously by the prime minister, Ryutaro Hashimoto.

While the general mood may have been lifted by news of the government plan, analysts noted that the market was largely supported by short-covering and futures-related buying.

The Nikkei average fluctuated between a low of 16,184.72 and a high of 16,686.51. Volume came to 477.97m. The broad-based Topix index rose 26.76 or 2.2 per cent to 1,248.07 while the Nikkei 300 average also increased 5.9 points to 248.85.

Rising issues outnumbered losers by 802 to 305 with 158 issues unchanged.

In London, the ISE/*Nikkei-50 index fell 3.87 to* 1,539.62.

Daiwa Securities, which announced that it would buy back up to 50m of its shares for up to Y25bn, was Y46 higher at Y451. Yasuda Trust Bank climbed Y19 to Y162 in *heavy trading and* Long Term Credit Bank picked up Y18 to Y231.

Exporters such as Aiwa, the audio manufacturer, and Honda, the car maker, were sought. Aiwa rose Y30 to Y3,170 while Honda surged *Y110 to a new high of* Y5,000, before closing at Y4,960.

Osaka was similarly lifted by the possibility that the government would take concrete action to support the financial industry. The OSE Average increased 294.05 to 16,645.09.

BANGKOK fell 2.8 per cent with the SET giving up 11.13 at 390.67 ahead of today's public holiday. The baht weakened in the foreign exchanges and bank shares moved sharply lower. The bank sector index fell 4.7 per cent. Krung Thai Bank lost Bt1.00 at Bt11.50. Thai Farmers Bank was the day's most active stock, shedding Bt1.50 to Bt82.50.

HONG KONG turned *lower as investors* became cautious and took profits after a three-day, 4.6 per cent, winning run. The Hang Seng index lost 232.28 or 2 per cent at 11,490.66. Turnover tumbled to HK$9bn.

Among the most active *stocks,* SmarTone Telecommunications Holdings tumbled HK$1.50 to HK$14.50 as AT&T Wireless Services said it was reducing its stake.

HSBC fell HK$3 to HK$206, contributing 41.07 points to the Hang Seng's decline. Citic *Pacific* was among the few blue-chip gainers with a rise of 50 cents to HK$34.30.

FINANCIAL TIMES SURVEY Wednesday December 10 1997

ITALY: INDUSTRY AND FINANCE

Qualification for Emu – just as that for the world cup – is being tackled the hard way. **Paul Betts** reports

Nail-biting time for the qualifiers

Italy's road to European Economic and Monetary Union has followed an astonishingly similar path to the country's nail-biting qualification for next year's soccer world cup finals in France.

The football squad nearly caused a national tragedy after a careless draw with Georgia and another home draw against England. It only squeezed through to the finals last month after a hard fought play-off against Russia. The Italian government was also close to scoring an embarrassing own goal in September with a surrealistic political crisis that risked provoking a national tragedy of considerably larger proportions.

Since the beginning of the year, the centre-left Olive Tree coalition government of prime minister Romano Prodi had notched up, against most expectations, a string of remarkable economic achievements, paving the way for early Italian participation in the single currency. Yet only a reckless gambler 12 months earlier would have given the country any serious chances of qualifying for the first wave of Emu in 1999.

The main instrument of change has been a systematic squeeze on fiscal policy that has enabled Italy to meet the Maastricht yardsticks for Emu membership.

Giovanni Agnelli, the patriarch of the Fiat automotive group, recently applauded the government's track record at a conference in Milan.

"During the last five years, the public deficit has come down from more than 10 per cent to 3 per cent, or possibly less, of gross domestic product. Inflation, which was running close to 7 per cent, has fallen below 2 per cent, even better than Germany. Interest rates have also declined significantly."

He also warned there was another side to the coin, with Italy being a country capable of showing two very different sides. For while the country had successfully managed an important economic transition to qualify for Emu, Italy's political instability continued to hamper any significant medium term reforms to give the country a new competitive impulse.

He was, of course, referring to the seven-day government crisis in September that nearly wrecked Italy's European ambitions and raised fresh doubts over the country's longer term prospects. The crisis was precipitated by Refounded Communism when the small hard left party, on whose support the government relies for its parliamentary majority, refused to back next year's draft budget.

Ironically, of all the unpopularly tight budgets of the past five years, the latest was relatively modest in terms of scale at least. It involved a L25,000bn cocktail of new taxes and spending cuts. But it was also the first budget to address the controversial but crucial issue of reforming the country's overblown pension and welfare system.

Despite its success in reducing the general government deficit to GDP ratio to 3 per cent and under, Italy still has one of the highest public sector debt burdens of any industrialised country. Pensions together with generous direct financing of state controlled enterprises (until recently about 60 per cent of industry and 80 per cent of the banking system was in state hands) have swelled the country's overall debt burden to 122 per cent of GDP this year.

In the past few years, the state has embarked on an ambitious privatisation programme to reduce radically its presence in industry and banking. In 1997 it completed its biggest privatisation to date with the L26,000bn flotation of Telecom Italia. It also sold a third tranche in the Eni oil and gas group, recently privatised the Banca di Roma, Italy's second largest banking group, and has pledged to pursue this programme with further sell-offs next year.

The privatisation programme, coupled with the arrival of professional managers in the public or former state-controlled industrial and banking sectors, has started to change old attitudes and cultures. It has also encouraged change in the private sector where the traditional defensive alliances between big groups are beginning to crack as large private companies adapt to global competition.

Italian groups which have traditionally shied away from aggressive cross-border acquisitions have also begun to adopt a bolder approach to international expansion. The recent decision of Assicurazioni Generali, the country's largest insurer, to launch a L16,000bn hostile bid against AGF of France is a telling sign of the transformation in attitudes currently taking place.

Nonetheless, this process of change continues to face significant obstacles, not least from traditional vested interests and what one leading industrialist described as the difficulty for a whole class of politicians, labour leaders and business managers "to move with the times and modernise the country's economic system".

This has been the case with pension reform. Notwithstanding that pension payments will still absorb this year nearly 40 per cent of state revenues, the government nearly collapsed when it tabled for the first time this year proposals to reform the system. The September crisis was also another demonstration of the fragile nature of a political system which remains hostage to small parties despite efforts to modernise the country's inadequate electoral system.

At the end of the day, a last ditch compromise was reached between the government and Refounded Communism to avoid a crisis that would have jeopardised not only Italy's European chances but also the wider efforts to modernise the economy.

Yet for all the government's rhetoric that the compromise budget agreement would not hamper its macroeconomic recovery and restructuring programme, many in Italian industry and finance considered it as another short–term fix.

The compromise involved some limited structural

Continued on Page 2

FT starts printing in Italy

Early in 1998, the Financial Times starts printing in Milan, the newspaper's 11th print centre worldwide.

Up to 15,000 copies will be printed each night by Telestampa Nord SRL for early morning delivery in Italy, southern France and Switzerland

The new print centre heralds a renewed emphasis on building the newspaper's circulation in Italy and southern France, where until now it has not always been available at a convenient time for readers. The new printing and distribution arrangements will overcome that handicap, offering readers much better availability.

Italy has been an important centre for editorial coverage for many years. There are full-time FT staff correspondents in both Rome and Milan

The FT has been printing outside Britain since 1979, when the international edition of the newspaper was first produced in Frankfurt. Every day, the FT now sells 154,000 copies outside Britain, 46 per cent of its total daily sale. The Milan print centre joins those at Frankfurt, Roubaix (France), Jönköping (Sweden), Madrid, Bellmawr (New Jersey), Los Angeles, Hong Kong and Tokyo. UK copies are printed in London and Leeds.

The international edition of the FT contains a broader coverage of international news than space permits in the UK edition. Stories of interest to international readers are given greater prominence, and UK news is published in a condensed form. International financial statistics are more comprehensive.

Subscription inquiries in continental Europe can be directed to the Frankfurt office at +49-(0) 69 156 850.

Peter Martin
Editor, International Edition

THE BOURSE • by Paul Betts in Milan

Market 'half the size it should be'

There is a gap between the potential and the reality of the Italian market

Italian economic forecasts

			Research groups									
			CER		PROMETEIA		REF		Employers' federation		IRS	
		1996	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
GDP	% change*	0.7	1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.1
Inflation	% change*	3.9	2.3	2.2	2.0	2.4	1.8	1.8	1.8	2.0	1.9	2.3
Private consumption	% change*	0.7	1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.1
Investments	% change*	1.2	1.7	4.1	1.6	4.6	1.6	4.8	0.7	4.0	0.2	5.5
Exports	% change*	-0.3	3.1	2.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Imports	% change*	-2.6	3.0	3.2	6.6	6.1	4.4	6.7	6.0	6.6	7.8	7.7
Unemployment	% of labour force	12.0	12.2	12.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current account	Lbn	64,673	69,600	60,000	56,622	57,119	65,440	72,555	58,880	59,735	63,925	62,545
Net indebtedness	% of GDP	6.7	3.3	3.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exchange rate	L per $	1,543	1,673	1,634	1,699	1,691	–	–	1,719	1,719	1,717	1,715
Exchange rate	L per DM	1,026	990	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* % change on previous year. Source: Conti Pubblici e Congiuntura Economica No.3, October 1997

In the business heart of Milan, Italy's financial capital, you often see little groups of pedestrians watching nervously the screens behind the glass facade of some large bank branches showing the latest stock market prices. For the current turbulence on the global stock markets has made many small Italian investors, who have dipped into equities for the first time this year, extremely anxious.

Italians have traditionally been known as "Bot people" because of their overwhelming inclination to invest their savings in Buoni del Tesoro or government bonds. Since the sharp fall in interest rates and government bond yields during the past 12 months, they have been forced to change the composition of their savings portfolios. More small investors have been moving into equities through mutual funds or by subscribing to the government's privatisation programme.

About 1.5m Italians bought shares in the L26,000bn flotation of Telecom Italia in October creating a new army of so-called "Telecom people". The fact that Telecom Italia shares have been trading below the original offer price as a result of the ensuing world stock market crash has done little to convince these small savers about the merits of equity investments.

The Milan stock exchange, at least until the recent turmoil in the financial markets, had been enjoying a particularly good year. The blue chip Mib30 index gained more than 60 per cent in 12 months. Trading volumes had risen sharply and there were signs of a significant shift in attitudes towards the bourse, viewed for decades by small investors with the greatest suspicion. Most considered the stock market either as a sort of casino or a private club reserved for a few big players.

Compared with its peers, the Italian stock market has always been a dwarf. Its market capitalisation is barely 25 per cent of Italian national income. London's is more than 150 per cent. "For the dimension of a country like Italy, the market is about half the size it should be," says Tommaso Padoa-Schioppa, the new president of Consob, the Italian stock exchange watchdog. He also argues that there is a wide gap between the potential and the reality of the Italian market.

A former and highly respected Italian central banker, Padoa-Schioppa lists six factors which are expected to provide in the future the impetus for the long awaited development and modernisation of the Milan bourse. They include:

- **Declining interest rates.** These are expected to continue their downward drift, especially if Italy joins the first wave of countries in the first wave of countries in EU membership. Before the stock market turbulence, yields on three- and five-year government bonds had fallen below 5 per cent and 30-year bond yields have been hovering around 6 per cent. As long as yields remain historically low, equity investments will retain their growing appeal.
- **The privatisation process.** The hefty offer of new shares of formerly state-owned companies is a driving force for the equity market just as the strong offer of government bonds was in the past the driving force of the bond market.
- **Modification and reform of the pension system.** Although the process is taking time and continues to be the source of considerable political tensions, it is expected to lead eventually to the development of new pension funds in Italy. Simply put, the public pension system is no longer considered capable of satisfying in the longer term old age pensions. In turn, new pension funds are expected to give the equity market a significant boost.
- **The recent privatisation of the stock market.** The bourse was floated in October and is expected to adopt a more entrepreneurial approach replacing its old public service culture. The newly privatised exchange has already moved to simplify regulations and reduce the cost of trading to encourage more Italian companies, especially medium-sized enterprises, to list themselves on the market.
- **Evolution in Italy's entrepreneurial system.** In the past, the three main components of this system – the big private groups, the smaller private companies, and the state sector enterprise – did little to feed the stock market in any significant way. The big private groups were largely controlled by families and their allies. The smaller companies were generally first generation enterprises which were either not interested nor concerned about seeking funds on the bourse. As for the state-owned sector, it had no real interest in the bourse. This entire system is now in a state of flux. A large chunk of the state sector has been floated, smaller companies are growing and their financing needs changing rapidly. The big private groups are increasingly facing the challenges of globalisation, are in the throes of restructuring and refocusing, and require to provide shareholders with greater value.
- **Evolution of the banking system.** Restructuring and consolidation has now begun in the Italian banking sector. With their traditional spread business under pressure as a result of the fall in interest rates, banks have been forced to expand into higher value-added activities including corporate finance and encouraging companies to go to the market.

The overall stakes are high. "You can't modernise a country unless you have a modern financial system," says Marco Tronchetti Provera, the chairman of the Pirelli tyre and cables group and one of the new breed of modern, forward-looking Italian executives. And the modernisation of the financial system includes the development of a stock exchange with the capacity of attracting capital.

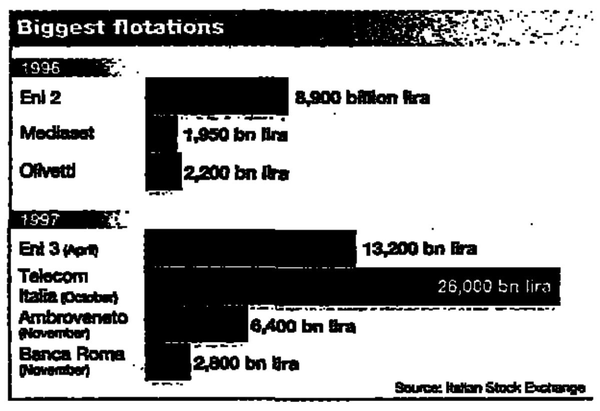
The current volatility of world stock markets is clearly making change more difficult. But the real challenge for the future of the Italian stock market is the development of the necessary conditions to give the Milan bourse the credibility not only to attract small Italian investors but also to compete internationally. To be successful, the new privatised bourse, together with the stock market regulator Consob and the monetary authorities, will have to introduce corporate governance rules to make the Italian market more transparent and efficient.

The government recently sent an important signal to the market of its resolve to support the transformation of the Italian bourse. It introduced a new dual income tax system for corporate profits providing tax breaks for companies which reinvest their earnings or issue new equity. To stimulate more Italian companies to take the plunge and list themselves on the stock market, it has slashed the tax rate to only 7 per cent for the first three years after flotation.

A commission headed by Mario Draghi, the director general of the Italian treasury, is also expected to complete soon a blueprint for corporate governance rules in Italy. These are likely to establish new limits for cross-shareholdings, provide greater checks and balances inside the country's executive suites, and remove some of the obstacles to takeover bids, in particular the use of anti-takeover pacts between shareholders' syndicates.

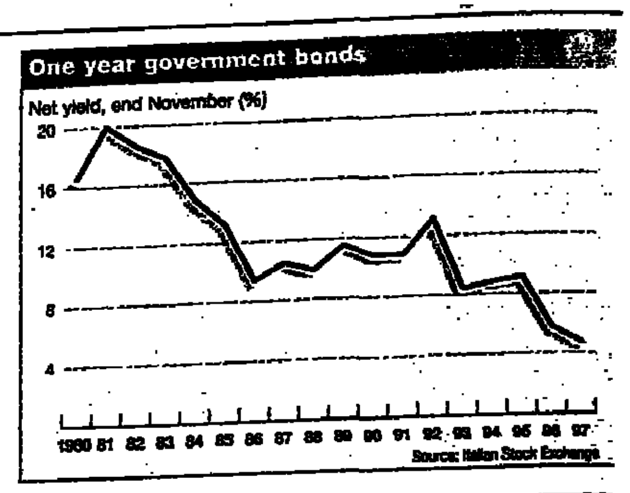
Most of the conditions are now in place, in theory at least, to give the Italian equity market *the impetus* to play a more significant role in the national economy. It is already changing for even Italy can no longer defy the laws of gravity. The issue is whether it will be capable of transforming quickly enough to avoid being left on the sidelines in an increasingly integrated and competitive international financial system. If it fails, it risks seeing more Italian companies and investors bypassing Milan and choosing Wall Street, Frankfurt or the City of London.

Biggest flotations



Source: Italian Stock Exchange

One year government bonds



Source: Italian Stock Exchange

A good year despite recent turbulence — Photo: Trevor Humphries

FOOTBALL AND FASHION • by Paul Betts

Stemming the Gucci trail

Milan's bourse must repent at leisure for turning away some of Italy's best

Ronaldo of Brazil – acquired by Inter Milan as a step towards flotation. The club recently appointed Morgan Stanley as its adviser — Allsport

The "Gucci factor" still haunts the Italian stock exchange. The famous Florentine fashion house decided three years ago to list itself on the New York and Amsterdam stock exchanges after it was refused a Milan listing. Since then, the Milan bourse has been kicking itself. Gucci has not only become a Wall Street success story but helped accelerate the flight of promising Italian *companies to the New* York stock exchange.

With more and more Italian fashion companies considering following the likes of not only Gucci, but Luxottica, the world's leading producer of spectacle frames, and Fila, the sportswear maker, to Wall Street, the newly privatised Italian stock market has taken steps to try to stem the drift of Italian companies to New York and elsewhere.

It is now proposing to simplify new listing rules and the cost of trading not only to attract more Italian fashion houses to the Milan bourse but also a growing number of Italian football clubs considering going to the market, and eyeing London, which has taken a lead in football stocks.

"Made in Italy" fashion, textiles and accessories has become a huge business with an overall annual turnover of around L90,000bn. Italy accounts for about 12 per cent of world demand in these sectors. And after *Gucci, Bulgari, Marzotto,* other well known groups are considering taking the plunge. They include Versace, Armani, Ferre and Trussardi.

"Made in Italy" football is also in the throes of significant changes with the leading Serie A (First Division) clubs all seeking to adopt a more commercial approach to their activities with the ultimate target of going on the stock exchange.

"We want to apply the Anglo-Saxon model to Italy," says Stephen Julius, managing director of Stellican, a London-based investment company which acquired this year with partners Vicenza football club for L22.7bn.

"On the pitch, the Italians have little to learn from us: but on the business side – how to develop revenue streams and stable earnings – they can learn a lot from our system," he adds.

Vicenza has already given the Italian IMI Sigeco investment bank the mandate to prepare the club for flotation. But it is not alone. Inter Milan, the current Italian Serie A leader which acquired the world's most expensive soccer player, the Brazilian Ronaldo, has appointed Morgan Stanley as *its global co-ordinator for its* eventual listing. Bologna, Lazio, Parma, AC Milan and Juventus are also considering the possibility.

The problem up to now has been Italian stock market regulations whereby companies must show three years of consecutive profits before they can apply for a Milan listing. Gucci at the time could not meet this requirement. Most Italian football clubs are in the red disqualifying them from the Italian stock exchange.

A recent study by Antonio Marchesi, an Italian partner of the Deloitte & Touche accounting group, shows that the 18 Italian Serie A clubs reported overall operating losses of L313bn last year and, after a variety of special gains from the sale or transfer of players and other extraordinary items, a total net loss of L53bn. Only six clubs showed a pre-tax profit: Sampdoria, Cagliari, Napoli, Vicenza, Lazio and Piacenza.

However, all Italian clubs see significant commercial opportunities from the development of merchandising, higher television revenues as well as other new sources of funds from football grounds and sponsorships. Mr Marchesi's research, for *example, discloses that* the top Italian teams only made a total of L45bn from merchandising while Manchester United alone earned as much as L51bn from merchandising activities last season.

All the leading clubs thus have significant potential to improve their revenue streams and balance sheets. And many believe they could take advantage of the growing public interest for football and other sports entertainment stocks.

To avoid further Gucci fiascos, the Italian stock exchange is proposing to abolish the old rule requiring companies to show three consecutive years of profit before being listed. Under the new system, a company will only have to show that its activities can generate profits. It will also have to present to the stock market its balance sheets for the three previous years, with at least the last balance sheet audited.

The stock exchange will only consider companies whose initial capitalisation would total L10bn. Companies coming to the market for the first time would also have to be sponsored by a bank, an investment firm or another authorised broker. These sponsors will have to guarantee the financial forecasts and figures of the company. At least 25 per cent of a company's capital will have to be floated.

With this change, the privatised stock exchange expects to lure about 100 new companies to the market over the next three years. It clearly hopes these will include a little football and fashion.

Nail biting time for qualifiers

From Page 1

reform to the pension and welfare system in exchange for proposals to cut the working week to 35 hours – a move immediately criticised by industry as creating even more rigidities at a time when the country is in urgent need of greater flexibility to enhance its international competitiveness. The reduction in working hours would not help reduce unemployment currently running at 12 per cent with peaks of more than 20 per cent in the deep south, industrialists argued. Rather, it was likely to put even further pressure on the job market.

The treasury has continued to defend its track record. In recent weeks, it has shown growing irritation at the lingering doubts over its economic policies claiming that Italy was now well down the road to recovery, inflation was under control, interest rates would continue to fall and in so doing reduce the overall deficit. Prime minister Prodi has even suggested that the government would be in a position to loosen its fiscal grip next year.

The Bank of Italy, however, much to the government's annoyance, has continued to maintain a prudent stance on interest rates suggesting that it has yet to be totally convinced that Italy has finally turned the corner. Although economic momentum has been slowly building up, in large part on the back of government incentives to encourage new car sales and the depressed construction sector, GDP growth is expected to remain modest in coming months dragged down by tight monetary and fiscal policies. The government expects GDP to grow by 1.2 per cent this year and has just revised its forecast next year from 2 per cent to 2.5 per cent. But many economists are still forecasting only 2.1 per cent growth in 1998.

"There is no question that the government has taken some important short term steps," says the head of one of Italy's biggest companies. "The recent budget agreement was also a short-term deal but in the medium term it could prove a dramatic agreement. It could be disastrous. It will enable us to join Emu but we then risk going out again and that will mean Emu won't work," he added.

This may be pushing pessimism to an extreme. But then Italians have never forgotten how their beloved national football team was eliminated in the early stages of the 1966 world cup by North Korea's rookies. And that the goal that clinched the match was scored by a humble dentist.

STATE SECTOR • by James Blitz

An extra course of hurdles

Despite Prodi's impressive list of privatisations the going is likely to get tougher

Romano Prodi's centre-left government has pulled off a notable series of privatisations in recent months. Despite much scepticism about whether his words would ever be matched by deeds, a string of state assets has come onto the market and have been snapped up by Italian and international investors.

The list of sales is impressive: Telecom Italia, the third tranche of shares in Eni, the troubled Banco di Napoli, the equally troubled Banca di Roma. All these operations have borne witness to the determination of Mr Prodi and his ministers to loosen the state's control of industry and improve Italian competitiveness in the run up to economic and monetary union.

And yet for all that, the signs are that, in 1998, the going will not get any easier. The government would dearly love to get more money into the treasury to reduce the debt overhang, currently 122 per cent of gross domestic product. International institutions would like to get their hands on the more efficient bits of the Italian state sector. And the Italian public – a nation of savers like no other in Europe – is keen to move its cash out of government bonds now that lower interest rates bring miserable returns on treasury paper. But although the state has received more than L60,000bn from its privatisations and partial sell-offs in recent years, the going is set to get tougher. The government must now overcome a new series of hurdles if the privatisation programme is to go on.

Nobody can suggest – at least for now – that Mr Prodi's fundamental determination to press ahead with the privatisation programme has dimmed. His ministers have recently repeated their determination to try and sell further tranches of Eni, the oil and gas conglomerate, which is still 51 per cent state owned. In the wake of the Telecom Italia sell-off – the so-called "mother of all privatisations" – Mr Pier Luigi Bersani, the country's industry minister, has spoken of his determination that 1998 should be the year in which Italy begins to privatise Enel, the world's second largest electricity company.

Moreover, the government is determined to press ahead with plans to close down Iri, the Mussolini-era state holding company that continues to reign over a large and sprawling empire. Among the items on Iri's sales list are parts of Finmeccanica, its defence and aviation conglomerate; Alitalia, the state-owned airline; and Autostrade, the Italian motorway network. With Brussels insisting that Iri, an institution, is a glaring breach of European Union rules forbidding state aid, the sale of these companies has been the subject of discussion and planning at the highest levels of government.

However, progress will not be easy. In broad terms the problem is twofold. First, the government's precarious majority in parliament makes it difficult to make progress with the Eni and Enel sales without upsetting Mr Prodi's hard left "allies." And secondly, fears that many of Iri's inefficient holdings would be easy pickings for foreign investors in Europe's increasingly competitive marketplace have made the government think again about whether the items are ready for sale.

The two hottest properties on the list are, of course, Eni and Enel. In the case of the oil and gas conglomerate, the task facing the government – and Mario Draghi, the director-general of the treasury in particular – is whether to proceed with the sale of a fourth tranche of shares that would require the state to lose overall control over one of Italy's most internationally respected organisations.

Senior Treasury officials have made clear that another Eni offer would be technically easy to achieve, could be completed from start to finish in 10 weeks and would not even require a vote in parliament. The problem, however, is that there are just five months to go before Italy's finalises its bid to join Emu. And despite his coalition's strong success in recent mayoral elections, Mr Prodi remains concerned by the threat from Reconstructed Communism, the privatisation-loathing minority party which temporarily brought down his administration in October.

"I find it hard to see Prodi going ahead with Eni Four on the very eve of his application to get into a single currency," says one Italian corporate financier. "The last thing he wants to do now is provoke a new round of questioning in Brussels about whether Italy has got a stable government."

Similar considerations affect the sell-off of Enel – though there are other factors staying Mr Prodi's hand here. As part of his deal with RC, Mr Prodi is believed to have suggested that he might delay the Enel sell-off. The prime minister is determined not to proceed with any kind of share offer until Enel has helped to create a real market for electricity generation in Italy.

Any privatisation of Enel will therefore only take place after the company has first started to sell its stake in the three joint ventures it has created for electricity generation with a range of international companies. Once this has happened – and Italy's place in Emu is confirmed – a partial sale of Enel might take place in the autumn of next year.

On the Iri front, the considerations are different. Gian Maria Gros Pietro, an industrial economist and a man very much in Mr Prodi's image, was appointed Iri's president earlier this year. He is clearly determined to be a "liquidator" rather than a "manager" of this sprawling empire. He needs to sell it off within three years to meet EU concerns about state aid in liberalised markets. But Mr Gros Pietro is determined to ensure that the companies thrive once they are sold off – and this, almost invariably, means he must find joint ventures for all the entities involved.

Take Finmeccanica. Conceived and developed in the heyday of the Italian corporatist state, Mr Gros Pietro has now finally accepted that this defence and aerospace conglomerate has no future as a single entity. He announced its partial break-up in the autumn and is currently engaged in selling Iri's stake in Elsag-Bailey, one of the world's leading automotive companies.

But the remaining companies – such as Ansaldo, a leading power engineering company, and Alenia, its aerospace and defence conglomerate, require foreign partners if they are to thrive. So Mr Gros-Pietro is currently in the throes of developing joint ventures for both, with a range of well-known names – Daewoo, Siemens and possibly British Aerospace – reputedly touting for the joint venture contracts.

A joint venture is also essential if Alitalia, Italy's national carrier and another leading item on Iri's list, can be disposed of. For the past few months, the company, which has been plagued by difficulties for years, has been seeking a strategic alliance to take it into the 21st century. KLM, Air France and Swissair are cited as possible partners and an announcement on a strategic partner is promised before the end of the year. Completion of the deal is regarded as essential to any potential sale of Alitalia equity to the market in 1998.

There are some brighter spots in the constellation, of course. Autostrade, the state motorway network, looks almost certain to be sold by Iri at the start of next year. The sale has been delayed by technical objections about the nature of the sale from Italy's Court of Accounts.

However, progress in the medium term will depend on Mr Prodi's determination to face down his political rivals and shun complaints from the hard-liners of Reconstructed Communism that "foreigners" cannot be allowed to get their hands on Italy's prized state utilities and assets. Mr Prodi would probably like to start talking about bringing private capital into Italy's ramshackle state-owned railway system and turning round the inefficient postal service. But in these sensitive months before Italy's long-hoped-for entry into Emu, he will hold his fire.

THE PRIVATE SECTOR • by Paul Betts

A model at the crossroads

Vested interests are fighting a rearguard action which is holding back change

Until a few years ago, Italian finance and industry was broadly divided in two blocks with the state controlling the dominant part of the entire system. About 80 per cent of the banking system and 60 per cent of industry was in its hands. And apart from the dense network of small and medium-sized enterprises, traditionally known as the "Italian industrial model", the country's large private groups for the most part relied on benevolent, interventionist governments.

All this is now changing. The old economic structure has become weaker. The state, itself facing considerable political changes following the demise of the old Christian Democrat order and the rise of a more liberal-minded centre left coalition, has been disposing of banking and industrial assets through a systematic programme of privatisation. Industry and banks have been forced to adapt to increasingly global markets. New European Union rules have started opening up the Italian market.

The country is still undergoing a difficult transition. How long it will take will depend on the willingness of the country's ruling classes, in the corridors of Rome and among its industrial and financial elite, to adapt to the inevitable evolution of the Italian capitalist system. "Change is a must if we don't want to be left on the sidelines," says Marco Tronchetti Provera, chairman of the Pirelli tyre and cables group.

There have been some encouraging signs. The government's recent compromise with the small Refounded Communism party over its welfare reform and its proposal to introduce legislation for a 35-hour working week has highlighted the continuing political difficulties of introducing sweeping reforms in Italy. Nonetheless, in the short term at least, the centre-left government of prime minister Romano Prodi appears set to win its bet to take Italy into the first wave of economic and monetary union in January 1999. Inflation and interest rates have staged a spectacular decline, the government is meeting its 3 per cent public deficit to gross domestic product targets, economic activity is at last picking up again.

The private sector has also started responding to the challenge. Big industrial groups and banks have undertaken restructuring and refocusing. The old, cosy alliances of the salotto buono, the so-called good drawing room of Italian finance and industry, are coming under pressure. Traditionally secretive private groups have started dismantling their complex holding company structures made up of a cascade of so-called "Chinese box" companies to ensure control with the minimum capital outlay and shareholding, creating what has been called "a capitalist system without capital".

Companies are also trying to provide minority shareholders with greater transparency and are talking, for the first time, of strategies to enhance shareholder value. Assicurazioni Generali organised this summer in Milan a meeting with financial analysts, an unprecedented event in the long history of Italy's largest insurer. Mr Carlo de Benedetti, the former Olivetti chairman and one of the great architects of "Chinese boxes", has been rationalising his activities through the elimination of the various controlling layers of his business interests.

Mr de Benedetti was forced out of Olivetti last year by disgruntled shareholders angry at the financial turmoil of the Italian information technology group. Barely 12 months ago, the writing seemed to be on the wall for Olivetti. But after extensive internal restructuring and asset disposals, recentring the group on its three core businesses of information technology, telecommunications and office equipment, and negotiating alliances with international partners including a telecommunications tie-up with Mannesmann of Germany, Olivetti appears to have succeeded in engineering its survival.

Olivetti is an extreme if highly symbolic case. Italy's largest private enterprise, the Fiat automotive conglomerate, has also been increasingly focusing on its core car, truck and earth-moving and tractor businesses resolutely expanding its international activities.

Fiat this year has been performing strongly with pre-tax profits expected to top L4,000bn not only on the back of government incentives to boost Italian car sales but also because of the encouraging growth of its Brazilian car operations where it is now market leader. Fiat is also investing in India and has announced its return to the Russian market. It floated a stake of its New Holland farm and earth moving equipment subsidiary which has also seen its profits rise sharply.

The automotive group, while still firmly in the grip of the Agnelli family, is increasingly perceived as a public rather than family-owned company. It also faces a difficult succession problem with its chairman, Cesare Romiti, reaching the retirement age of 75 next June. The succession should provide a further signal of how fast and to what extent big business in Italy is changing.

In the meantime, the Agnelli family industrial holding IFIL has been actively transforming itself from a passive investment vehicle into an aggressive holding company. It has forged a retailing alliance between its Rinascente group and Auchan of France, joined the new core of stable shareholders in the privatised Telecom Italia, and even more significantly launched a bid for control of the French Worms financial and industrial group.

Provera: "Change is a must"

After its ill-fated attempt to acquire Continental of Germany, Pirelli under the leadership of Tronchetti Provera has also staged an impressive recovery.

The list could go on. In September, for example, Montedison, the chemicals conglomerate which was brought to its knees five years ago by an unsustainable debt mountain, sold the last slice of its former petrochemical empire to Royal Dutch/Shell in what to all intent marked the climax of one of the country's biggest post-war industrial restructurings. The transaction has helped Montedison cut its group indebtedness from L7,920bn to L2,860bn. At the height of its crisis four years ago, Montedison's debts totalled L17,200bn.

Similar attitudes are permeating Fininvest, the holding company of Silvio Berlusconi, the media tycoon and leader of the right-wing opposition. Fininvest has been streamlining its structure and significantly, its Mediaset television broadcasting subsidiary, listed on the stock market last year, has sought to distance itself from its controlling shareholder. The company has openly said it would like to see Berlusconi reduce further his stake in the group as his political interests risk becoming a handicap for the company's development.

Forced to adapt their structures and operations to compete in an increasingly global business environment, Italian companies have begun to take a more aggressive approach to cross-border transactions. Luxottica, which has become the world's leading spectacle frame manufacturer in barely 30 years, acquired US Shoe in a bold effort to strengthen itself in the North American market. Parmalat, the dairy products group, has been rapidly expanding through international acquisition at a time when large sections of Italy's food industry are now controlled by multinationals. This year alone, Parmalat acquired two significant Canadian companies.

Encouraging as all this may appear, old habits die hard in Italy. The temptation of the centre-left administration to adopt a dirigiste or interventionist approach to business remains real. The labour market continues to be inflexible at a time when industry risks losing export competitiveness as a result of the stronger and more stable lira.

Vested interests remain strong and are fighting a rearguard action which is delaying inevitable change, making the transition to an open market system all the more arduous. At Mediobanca, the influential Milan banking institute, there is a battle between a new generation of managers seeking to transform the group into a modern merchant bank and the old generation struggling to maintain the status quo.

At the other end of the scale, small- and medium-sized companies, which continue to be regarded as the most vibrant sector of the economy, are also having to face change. Many have grown spectacularly and proved resilient to the country's perennial political instability, but are increasingly finding that they have outgrown their family structures. As many as 1000 are said to be ready to make their entry into the stock market if it becomes more receptive.

Italian private industry and finance is at a crossroads. Never has the old cliché been more apt.

PROFILE Mario Draghi

The driving force behind privatisation

Treasury chief is leading the sell off of state companies and the opening up of boardrooms

Draghi: extending his grip

Carlo Azeglio Ciampi, Italy's finance minister, is the man who is most often credited with the extraordinary turn-around in Italy's budget deficit, which is paving the way for possible entry into a single currency in 1999.

But when international investors think of the other great change on the Italian financial scene – the privatisations and sell-offs of leading state companies such as Telecom Italia and Eni – the name that comes to mind is Mario Draghi, director-general of Italy's Treasury.

For the past six years, the suave and somewhat Americanised Mr Draghi (he is a former executive director of the World Bank) has been the consistent driving force behind the Italian government's privatisation programme, which has yielded some L60,000bn in revenues for the government.

Mr Draghi was first appointed to the post in 1991, before the wave of political upheavals that have since affected Italy. Despite the comings and goings of governments of vastly differing complexions, Mr Draghi, now 52, has hung on. He has become one of the most influential figures in the Italian state.

Many of the privatisations – in particular that of Telecom Italia – have been complex operations, requiring the preliminary creation of a stable core of investors. This is done to ensure the company does not fall into the wrong hands – or perhaps one should say a single pair of hands – when it comes to market.

Although the Treasury is for the most part an overmanned and inefficient institution (it has some 27,000 employees), Mr Draghi and his team – the so-called Draghi boys – have formed an effective group, which has broadened the base of shareholders against considerable odds.

Mr Draghi has attracted criticism that he is too Anglo-Saxon by temperament, too disrespectful of Italy's traditional method of allowing the state to run the show. But it is his latest campaign to create a transparent system of corporate governance in Italian boardrooms that has found him under more intense fire.

Since the summer, a commission of senior officials under Mr Draghi's leadership has been finalising a list of new corporate governance rules. The commission's concern is that much of Italian capitalism is still controlled by a cosy and intricate network of "national champions". The hidden cross-shareholdings of these companies – often orchestrated by Mediobanca – mean that ordinary mortals are never quite sure who is running what.

The creation of tough and transparent corporate governance rules is therefore being hailed – and feared – as a sword that might chop up Mediobanca's Chinese boxes. So it is not surprising that Mr Draghi's plans to push through change in this area – creating a takeover culture and giving shareholders real powers at board meetings – has attracted abuse.

The venom has been remarkable – and has come from some unexpected quarters. To give one example: back in August, Eugenio Scalfari, the founder of the daily la Repubblica, attacked Mr Draghi in an editorial as "one who does not have the air of a high-ranking official in the public administration, but rather that of a young yuppie."

Warming to his theme, he went on: "The difference is that yuppies have wealth as their goal and that is how they measure their success. But for Draghi, success means extending his grip on the public administration."

Some newspapers later suggested that Mr Scalfari's acerbic attack – strangely appearing in a centre-left paper – reflected little more than his close friendship with a few old-style capitalists vexed by Mr Draghi's rise. But the criticism is unlikely to subside. The corporate governance proposals will soon come before parliament. Other privatisations – such as Enel and Alitalia – may come to fruition in 1998. Confronted by the dual wrath of old-style capitalists and the politicians who pine for the hegemony of the state, Mr Draghi will need thicker armour.

James Blitz

FASHION • by Alice Rawsthorn

The empire strikes back

The industry is gradually taking over where Paris and New York are leaving off

Most seasons, a new star appears in the fashion firmament. This year the honour goes to Narcisco Rodriguez, whose debut collection has been praised everywhere from *Harper's Bazaar*, to *Vogue Australia*.

Narcisco Rodriguez is a US citizen of Cuban descent born in New Jersey. He shot to fame by designing a wedding dress for Carolyn Bessette Kennedy, whom he befriended when they worked together at Calvin Klein in New York.

Except for Mr Rodriguez himself, everything about the debut collection was Italian. It was unveiled in Milan at the beginning of October, and the clothes were made from Italian fabrics at the factories of Aeffe. The factories are owned by Alberta and Massimo Ferretti, the duo behind Ferretti, one of Italy's best known fashion labels.

To the general public, Italy's fashion industry is associated with famous Italian designers such as Giorgio Armani, Prada, Valentino. Yet one of the industry's greatest strengths has been its ability to capitalise on the design talent of other countries. It has done this by establishing Italy as the world's principal production centre for designer clothes.

Italian fashion first came to the fore in the 1950s, when Rome's designers, led by Valentino, established a small but stylish rival to Paris *couture* week. The hand-made leathers and silks of Florentine artisans, Gucci and Pucci, were adopted as status symbols all over the world.

Despite the Italians' best efforts, France remained the centre of international fashion throughout the 1960s. But by the end of that decade, the traditional *haute couture* trade, at which Parisians excelled, was falling from favour, and *prêt-à-porter* was in the ascendant. Reluctant to accept the end of the *couture* era, the French fashion establishment was slow to adapt to the changing market, leaving the Italians to take the initiative.

Throughout the 1970s, Milan steadily gained in stature as an international fashion centre. Italian manufacturers nurtured a lucrative new market by exploiting the skills of the city's tailors and the weaving mills of nearby Como to produce high quality clothing for the growing number of ready-to-wear designers.

Realising that perceptions of their businesses could be enhanced by a favourable view of Italian fashion, several textile groups, notably GFT and Marzotto, helped talented local designers, such as Giorgio Armani and Gianni Versace, to launch their labels. The groups contributed towards marketing and publicity costs for the designers.

By the 1980s, Milan Fashion Week was established as a fixture on the twice yearly international fashion circuit, alongside Paris and New York. Italy's textile and clothing manufacturers not only benefited from the commercial success of the Milanese designers, but snapped up production contracts for foreign designers too.

During the 1990s, Italy's fashion star has risen further. Once again, the Italians have benefited from the difficulties of the French. The sporty style traditionally associated with Italy is better suited to the loose, minimalist look that came to the fore in the early 1990s (French fashion was more formal, fussier). On the commercial front, the Paris designers were burdened by the strong franc, at a time when the weak lira made Italian fashion – and manufacturing contracts – less expensive in the international marketplace.

Yet the chief catalyst for Italy's success was the emergence of Gucci and Prada as two of the hottest fashion labels of the 1990s.

Gucci, once relegated to the role of a devalued, Eurotrash brand after years of reckless expansion, has staged a dramatic revival under Tom Ford, its Texan chief designer, and Domenico De Sole, its president. Mr De Sole became president when Investcorp, the Bahrain-based investment banking group, took control from the Gucci family.

The new management team has since invested in remodelling Gucci's old stores, and opening new ones. It has also financed an aggressive US-style marketing strategy to ensure that the favourable publicity generated by Mr Ford's collections benefits all the products bearing the Gucci name.

A similar strategy has been pursued by Prada, which consisted of a bespoke luggage store in Milan until Miuccia Prada, the founder's granddaughter, took charge of design, and her husband, Patrizio Bertelli, assumed control of the business. Prada, like Gucci, has since become a global brand with an extensive international network of stores.

Other Italian family firms have also revived. Ferragamo, the renowned shoemaker, is investing heavily to modernise its image. Missoni, the famous knitwear company, has been rejuvenated since Angela Missoni, one of the younger members of the family, became involved with its design.

On the production front, Italian manufacturers are clinching more deals with local and foreign designers. Aeffa has added a new agreement with Narciso Rodriguez and has existing ones with Jean-Paul Gaultier and Rifat Ozbek.

Stefanel, best known for its own retail interests, is one of the largest manufacturers of Calvin Klein's sportswear in Europe. Itlierre, which holds the contracts to manufacture jeans for designer labels including Versace and Dolce e Gabanna, floated on the Milan Borsa this autumn.

Many of the established names – who drove the development of Italian fashion in the 1970s and 1980s – are taking steps to ensure that their businesses survive over the long term.

This autumn, Valentino signed an agreement to sell his business to HPI, the powerful industrial group. Giorgio Armani recently restructured his company by streamlining its operations into three divisions as a prelude to selling a stake, or going public. Gianfranco Ferre is also considering plans for an investment deal, or flotation.

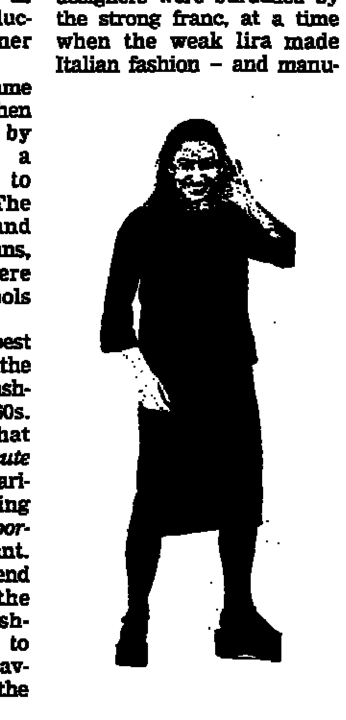
The Versace family is trying to stabilise its business after the tragic death of the founder, Gianni Versace, last summer. Versace had planned to go public next spring. But the designer's siblings, Santo, the company's president, and Donatella, now chief designer, have decided to delay the issue until early 1999.

For these groups, flotations offer an opportunity for existing investors to cash in their shares and for the company to raise capital for future expansion at a time when the cost of competing in the global fashion market is escalating.

However, Gucci's experience illustrates the drawbacks of going public. Its share price soared immediately after Investcorp started selling its stakes in 1995, only to falter this autumn when the strong yen and stock market instability sapped demand in Asia. Mr De Sole has since had to squash speculation that the company could become a bid target.

Gucci's experience has strengthened Patrizio Bertelli's determination that Prada will remain in private hands. He told a recent industry conference that he believed the stock market was too short-termist to understand the long-term investment requirements of prestigious fashion houses, and also warned that bad news on the financial front could imperil consumer perceptions of the label.

Prada one of the hottest fashion labels of the 1990s *Niall McInerney*



Miuccia Prada *Niall McInerney*

BULGARI JEWELLERS •

The luxury to diversify

Bulgari has entered the global marketplace with a range of new products

The elegant signs above the doors of Rome's via Condotti are emblazoned with the names of Italian artisans. Only a handful have succeeded in becoming international brands. Bulgari is one.

Founded in 1884, Bulgari has been making fine jewellery for decades, but it is a relatively recent recruit to the global market compared to its best-known rivals, such as France's Cartier and Tiffany of the US. Bulgari is trying to catch up by ploughing its profits – and the fruits of its 1995 stock market flotation – into new stores and product lines.

"This company was run in a very prudent way for many years," says Francesco Trapani, managing director of the Bulgari group. "But the luxury business today is about big companies with the capital to make expensive investments."

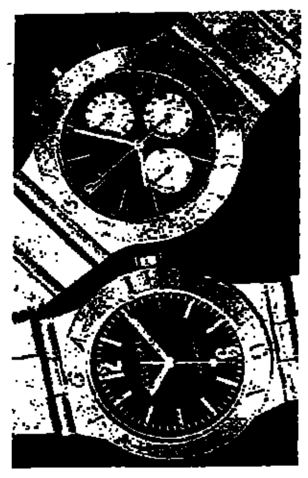
When Mr Trapani became managing director in the mid-1980s, his uncles, Paolo Bulgari, president, and Nicola Bulgari, vice president, had expanded the family firm. Besides the Rome flagship, stores had been opened in Geneva, Monte Carlo, Paris and New York. They had taken a tentative step towards product diversification by introducing a range of watches in the 1970s.

During the late 1980s, even though other luxury brands were busy broadening their businesses in a bourgeoning market, Bulgari's product portfolio remained intact. The family concentrated on retail expansion, particularly in the fast-growing Asian region. By 1990, the chain comprised 15 stores, including those in Tokyo, Osaka, Hong Kong and Singapore.

Like other luxury companies, Bulgari suffered during the Gulf War and the subsequent economic recession. It was then, according to Mr Trapani, that the family decided to expand more aggressively. They started in 1992 with the introduction of a perfume.

The fragrance market is so competitive, and the cost of entry so high, that most luxury brands license the production and distribution rights to large cosmetics groups. Giorgio Armani is linked to France's L'Oreal, and Gucci to Wella of Germany. Bulgari was determined, however, to adopt an independent approach by running its own perfume business.

"Brands like ours have to be controlled very carefully, and we'd seen too



Time to diversify

many companies with perfumes in different market positions from their own," says Mr Trapani. "We weren't willing to risk that."

Bulgari now has four fragrances: including one for men, another for women and the Petit et Maman children's line. The latter *sells well to adults in Asia*, where consumers prefer sweeter scents. Perfume provided 14 per cent of its L448.8bn turnover (or L62.8bn) last year.

The division remained in the red for four years, but finally broke even with a slim profit in 1996, according to Mr Trapani. It is on course for more substantial profits this year.

Since its flotation in Milan and London in 1995, Bulgari has accelerated its expansion. There are now 60 Bulgari stores worldwide, two-thirds of which are wholly owned. It has also introduced new products: most of these have been developed internally rather than through licensees.

A range of silk scarves has been introduced to Bulgari's Italian and Asian boutiques, and is now going on sale elsewhere. Next year, a tie line will be launched. The next step is the introduction of a collection of leather goods, with handbags priced from $850 to $1,700. These prices put them roughly between Hermès and Prada.

Bulgari is venturing into the licensing field for its next product launch, a range of eyewear, for which Bulgari has signed a production and distribution agreement with Luxottica, the prestigious Italian manufacturer.

"Eyewear is a very technical product, and it's a complicated market," says Mr Trapani. "We don't have the expertise to do it on our own. Luxottica is a very good partner, and it' s an Italian company, which helps."

If all goes according to plan, Mr Trapani expects the proportion of sales generated by products other than jewellery and watches to more than double from 14 per cent to 35 per cent over the next five years.

Next on Bulgari's agenda is a range of china and crystal table-wear. One product category that Mr Trapani plans to avoid is fashion. He admits to having considered it – particularly in the light of Gucci's success at *repositioning its brand* through the publicity generated by Tom Ford's ready-to-wear collections – but he is not convinced it would be appropriate for Bulgari.

"Companies like Gucci have a great advantage because fashion helps to define their image, and generates a lot of publi relations activity," he says. "But there's also the risk that, if a collection is badly received, it can damage your business. And, after all, Bulgari is a jeweller."

Alice Rawsthorn

GUCCI • by Alice Rawsthorn

Confidence in the long term

Gucci is putting its accounts in order to bolster its position for the future

Gucci was hailed as *the* corporate success story of the global luxury goods market when it went public in New York and Amsterdam two years ago. For most of those two years it reported healthy increases in sales and profits. But then Gucci's shares tumbled by $11.25 to $47 in a day, and then fell so far that by late November, the company was the butt of bid speculation.

"The market over-reacted," says Domenico De Sole, president. "It would have been very easy for us to improve the bottom line by opening a few new accounts, but it wouldn't have helped the brand in the long term, and that's what's important."

Long-term concerns dominate Mr De Sole's strategy for Gucci. In many respects, he and Tom Ford, the 30-something Texan whose designs turned Gucci into one of the hippest fashion labels of the mid-1990s, are now embarking on the most difficult phase of their work there.

Having shaken off the Eurotrash image that tarnished Gucci throughout the 1980s, the company made net income of $168m on net revenue of $881m last year. Ford and De Sole must now sustain the company's longevity as a sought-after brand by preventing Gucci from becoming yet another once-hot label that falls out of fashion.

One reason for the slowdown during the second *half of this* financial year is that, rather than drumming up sales by opening new accounts, Mr De Sole spent much of the first half closing some of the old accounts.

"I was concerned about over-exposure," he says. "That's been the ruin of a lot of brands." To prevent this, Gucci decided to forfeit sales by ceasing to supply 10 duty free and 25 wholesale accounts.

The chief difficulty facing Gucci is the increasingly competitive trading climate. The strength of the US dollar (the currency in which it reports) against the yen and lira has already cast a cloud over its prospects in the important Japanese and Italian markets. The weak yen has also deterred the Japanese, a prime source of duty free sales, from travelling abroad. And the recent turbulence in Asian financial markets has depressed demand from other countries in the region.

Despite these constraints, Gucci's management team is pressing ahead with expansion *plans*. The company is investing roughly $80m on capital expenditure this year, by opening new stores and renovating old ones. It plans to spend a similar sum in 1998, when Mr De Sole expects to add another 16 outlets to Gucci's 80-strong chain.

Mr Ford has been collaborating with Bill Sofield, the US interior designer, on a concept for a Gucci superstore. The first one will open at Gucci's old Sloane St boutique in London, followed by Rodeo Drive in Los Angeles. The company recently concluded negotiations to acquire the Cappellini store on Milan's via Monte Napoleone and a site on Omote-Sando in Tokyo, as well as to extend its Paris flagship into premises on rue Royale.

Gucci will also continue extending its product range. The homewares collection will be expanded, *and it will* launch a new luggage line made of *parana*, a tough industrial nylon, early next year. As new stores open, Mr De Sole hopes to devote more space to ready-to-wear, in order to build a long-term rapport with regular customers and to prevent Gucci from becoming a souvenir brand for wealthy tourists.

Having spent much of the last two years renegotiating Gucci's long-term licensing agreement with Wella, the *German beauty* group, Mr De Sole also hopes to develop new perfumes. Under the new agreement, Mr Ford now oversees the advertising for Gucci's fragrances, including Envy and Envy for Men, which is to be introduced in January.

Despite financing such an ambitious capital expenditure programme, Gucci has amassed $200m in net cash since going public. Mr De Sole recently unveiled plans to acquire Severin Montres, which has manufactured Gucci watches for more than 20 years, for $150m and to buy back up to 5 per cent of its shares, which would cost roughly $120m at current prices.

The share buy-back should enhance Gucci's earnings per share, but has also been interpreted by analysts as a defensive ploy to squash bid speculation and repair relations with the institutional investors, who *recently* opposed plans to limit any shareholder's voting rights to 20 per cent.

Over the long term, Mr De Sole envisages acquiring another luxury brand, probably a troubled one, ripe for revival like the *old* Gucci. "It's the next logical step," he says. "But in the meantime, we still have a tonne of work to do at Gucci."

Gucci has shaken off its 1980s Eurotrash image *Photo: Niall McInerney*

Tom Ford: embarking on a difficult phase *Photo: Niall McInerney*

THE NORTH EAST • by Paul Betts

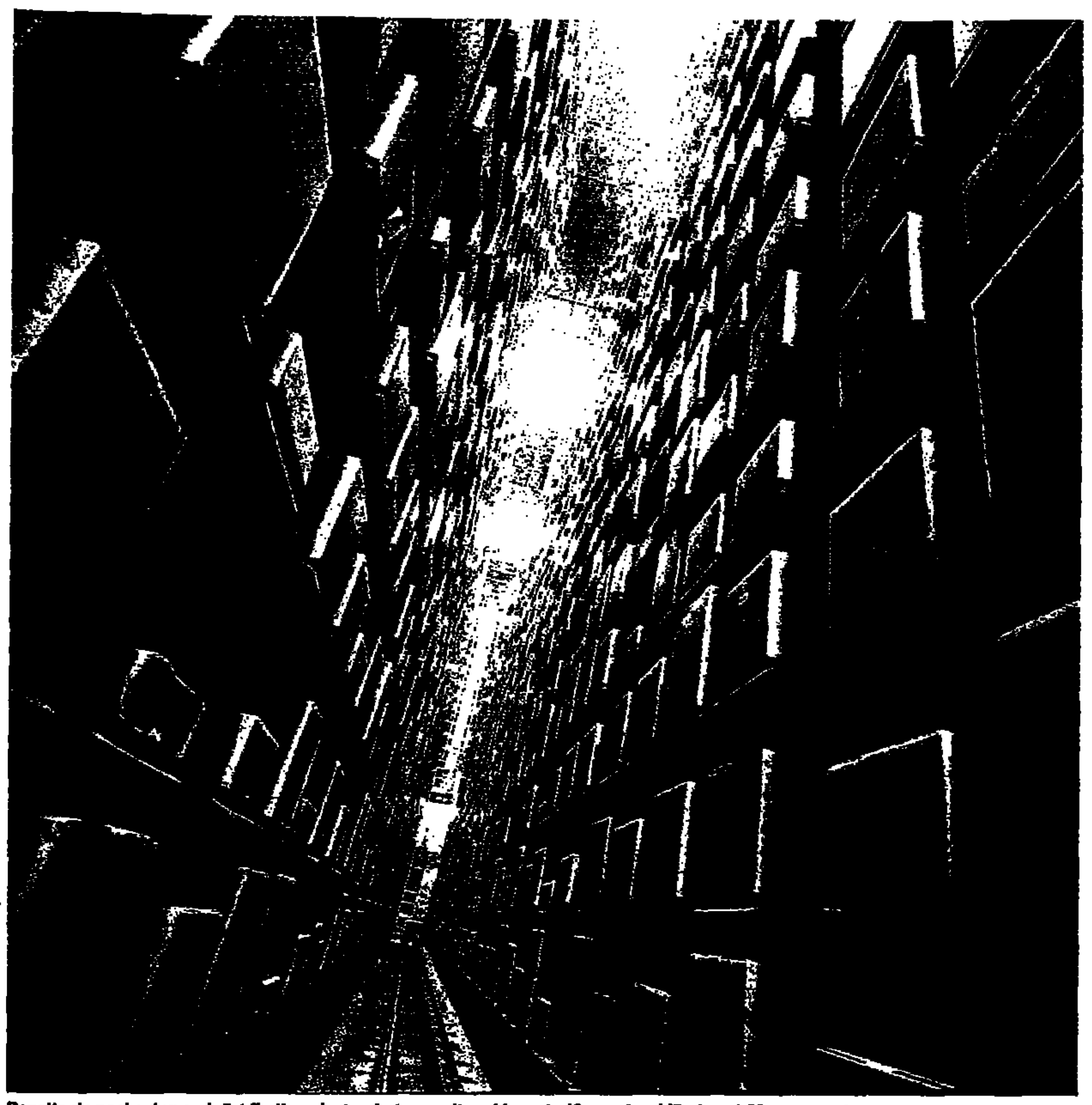
The shining light of industry

Success depends on how the region copes with man-made and natural tremors

Anyone familiar with Italy will have experienced the country's erratic electricity supply. So it was not entirely surprising to find oneself suddenly in the dark inside one of Italy's most sophisticated and automated industrial complexes.

"Whenever lightning strikes, the lights tend to go out bringing everything to a halt even here," explained the Benetton guide during a visit to the clothing group's high tech packaging and distribution plant where robots shift almost 80m garments every year monitored by no more than 19 people. "Unfortunately we are in a region famous for its fierce storms," she says.

She could also have added a region that has now become synonymous with Italy's post-war industrial success story. For the north-east of Italy, perhaps more than any other northern or central regions with a dense network of productive small and medium-sized industries, has given rise to what has become known as "the Italian industrial model".



Benetton's packaging and distribution plant: robots, monitored by only 19 people, shift almost 80m garments every year

Benetton is just one of the north-east's industrial flagships, if one of the biggest and most innovative. Established barely 32 years ago, the group has become a globally recognised brand exporting 65 per cent of its annual production. Today it has sales of about L3,000bn. Clothing remains its core business, but the Benettons have also expanded into a wide range of other sectors from fast food and supermarkets to leading a group of north-eastern entrepreneurs seeking the opportunity to become the core shareholders of Autostrade, the toll highway company the government wants to privatise.

In spite of increasing competition from new European and Asian manufacturers, higher labour costs and a less competitive lira, Benetton, rather than considering moving some production offshore, has decided to reinforce its industrial presence locally. It has invested L200bn over three years to create an innovative and flexible industrial system at its base in Treviso, integrating production, warehousing and distribution at a state of the art complex.

Further north, in the small town of Agordo in the Dolomite Alps, another global brand has been developed and nurtured in the past 36 years. In 1961, Leonardo Del Vecchio, a modest man who grew up in an orphanage in Milan, started making moulds for plastic eyeglass frames.

His Luxottica group is now the world leader in the spectacle frame market. Over the years he built up a company that could do everything from design to production to distribution of eyeglasses. He expanded into sunglasses and high-fashion frames for designers such as Armani or Yves St Laurent. He then launched a bid for a big US company to strengthen his position in North America.

Although not of the same scale of Benetton or Luxottica, a multitude of smaller companies have grown and thrived in the north-east and its core of the Veneto region. With an economy based on agriculture, agro-industry, artisan work and few large companies, the Veneto had traditionally lagged behind other areas in Italy's industrial north.

But during the past two decades it has caught up and now exports almost twice as much as the whole of southern Italy. The north east has become one of Europe's richest regions with an unemployment rate of barely 3-4 per cent (compared with an Italian national average of 12 per cent and a peak of more than 20 per cent in the South) and higher than average annual growth.

The north-east, however, has not altogether escaped the country's wider economic problems. The government's fiscal squeeze, rising labour costs and inadequate infrastructure have all been putting pressure on the north-east model. In turn, this explains in large measure why Umberto Bossi's Northern League separatist movement continues to enjoy strong support in this part of Italy. Not that most local companies and individuals favour outright independence and separation from Rome and the south, but they crave for greater regional autonomy and integration with their northern European neighbours.

The north-east system is also facing pressures of its own. Up to now, its success has been based on the family structure of the various businesses ranging from textiles, to clothes, to leather goods, to machine tools, to name just a few. The family is both owner and entrepreneur. Businesses are handed on to children and often two generations can be found working together. Profits are usually reinvested. However, as these companies evolve they reach a phase when they outgrow their family structure. Yet they still remain reluctant to take the next step in the natural evolution of their companies. Many, for example, continue to shun the idea of a stock market listing to transform themselves into what are sometimes called "family-public companies".

The north-east industrial model may have reached a transition. Judging from its past record and its industriousness and ability to adapt, the system is likely to continue its successful evolution and ride its present difficulties. "Remember what happened at the time of the terrible Friuli earthquake," says a Milan banker. "They rebuilt their factories before their homes."

The transformation of a national institution such as *La Scala* has inevitably provoked highly vocal controversy

Old house finds popular new signature tune

Milan's La Scala, the world's most famous opera house, has also been caught up in Italy's privatisation wave. It has just become the first of the country's public opera houses to be transformed into a private foundation. Under a decree introduced last year, Italy's other 12 public opera houses will be turned into private foundations by the end of 1999.

The move is designed to help these temples of "bel canto" to adopt a more modern commercial approach to help resolve their traditional funding and financial problems. La Scala has survived up to now largely on the back of public funding totalling about L91bn last year.

Box office sales only raised about L28bn last year while revenues from other activities produced a mere L13.7bn. Under its new status, the opera house will have to rely increasingly on sponsorship from large institutions and businesses. The transformation of a national institution such as La Scala has inevitably provoked highly vocal controversy. Not least from the current musical director, Riccardo Muti, who has openly voiced his worries that La Scala may lose its artistic independence and integrity as a result of its "privatisation".

PREPARING FOR EUROPE • by James Blitz in Rome

Obsessed by other views

Enthusiasm for Emu reflects desire to be part of the international club

More than any other nation in Europe, Italians remain obsessed with what the rest of the world thinks of them. And in spite of the immense contribution that Italian culture has made to the world, the country still has a never-ending determination to be part of the international club and respected by its counterparts in France and Germany.

Therefore, it comes as no surprise that Italy is more enthusiastic than any other country about the idea of giving up its national currency and entering monetary union. Nearly 80 per cent of Italians are said to be in favour of Emu according to opinion polls. There is no Euro-sceptic movement like those in the UK or France. Even at the height of its political problems in October, Mr Prodi's administration rarely came under fire from left or right for mounting its painful drive to get Italy into Emu.

What the foreign papers say: Italians tend to care Sarah Murray

Instead, the sheer enthusiasm for the project has allowed the Italian government to inflict economic pain on its citizens in a way that no other European state has quite dared to do. Successive administrations have introduced sweeping tax rises to help restore order to the public finances. The Bank of Italy has kept interest rates at levels that have almost crippled the Italian economy – the country still has the highest rates in Europe, incidentally – so as to keep a lid on inflation. Even the traumatic experience of being expelled from the exchange rate mechanism in 1992 – something seared painfully on British hearts – was somehow forgiven when Italy re-entered the system last year.

But even for Italians, fanaticism has limits. Huge – indeed unimaginable – progress has been made to bring the economy into line with the Maastricht treaty requirements. But the fear remains that fiscal consolidation may not be sustainable in the long run. And there are lingering concerns that other features of the economy – like the over-regulated labour market and old fashioned practices in banking – could be a serious handicap in the more competitive post-Emu world.

It is when discussing the broad economic picture – and the measures they have taken to improve it – that Italy's leaders are at their most confident. Next year's budget – which takes some L25,000bn out of the economy – has ensured the reduction of the budget deficit as a proportion of gross domestic product to the 3 per cent level required by Maastricht. Indeed, it may come in even lower by the year end.

Moreover, ministers are now starting to claim that Italy is locked into a kind of auto-pilot that will keep the public finances in order for years to come. Mr Prodi and his colleagues believe the Italian short term interest rates must come down to German levels as the country moves towards Emu – and this alone will reduce spending on debt repayments, currently some 9 per dent of GDP. As a result, the government could actually lower its primary surplus of 6.57 per cent of GDP next year and still stay within the Maastricht criteria.

However, where the government appears less confident is when it comes to containing public spending over the longer term – particularly as regards pensions. Italy's spending on pensions is some 14 per cent of GDP – almost double the EU average. And it is set to grow in the next century because of demographic factors, such as a declining birth-rate and an ageing population.

Mr Prodi has just managed to push through a series of cuts in pensions, worth about L4,100bn for 1998 – and these will contain overall outlays in the short term. But the firm opposition of trade unions and communists to any additional measures meant that structural cuts in long-term pensions spending were kept off the agenda. Future Italian governments will therefore have to come back to the pensions issue at some later date.

The government has also been forced to acknowledge that the continued strength of communists and trade unionists has made it difficult to introduce other reforms that might have been deemed crucial in the run-up to Emu.

For example, one of the most glaring problem that Italy faces is in the employment sector, where the cost of taking on workers is well in excess of the situation in many other EU states. Indeed, some companies are known to employ low-wage east Europeans rather than take on employees from the unemployment-ravaged south of the country. Moreover, Italy has few of the part-time jobs that flourish in flexible labour markets such as Britain's. Structural unemployment – at 10 per cent of the 12.4 per cent total – therefore remains worryingly high.

A second area of concern in the run up to Emu is the lack of a transparent corporate culture, which has left large swathes of the Italian private sector looking burdensome and inefficient. The government is currently working on a series of corporate governance rules that might foster a more competitive culture. But the feeling is that reform of the private sector – especially in areas like banking – has come too late. Doubts remain about whether Italy's national champions can become winners in the global marketplace.

It is not all doom and gloom. If there is one bright spark on the horizon it may come, ironically, from the impact that a popular single currency can continue to have on the country. The demands of the Emu stability pact to keep Italy's public finances in order will act as a damper on the country's traditional temptation for profligate spending.

And it may be that, assuming that he succeeds next May, Mr Prodi's historic success in taking Italy into Emu reaps a political dividend that finally allows him to keep a lid on parliamentary opposition – perhaps after a new round of elections. Ultimately, a tougher and leaner governing executive is what Italy needs to introduce meaningful reform. In the post-Emu world, Italy will need to create such an executive if it is to thrive.

INSURANCE • by Paul Betts

Stealing a march on bankers

Increasing competition has forced insurers to shake off their timidity

Whatever the ultimate outcome of Assicurazioni Generali's current takeover battle for the French AGF insurance group against Allianz of Germany, the aggressive move by Italy's largest insurer is the most telling signal to date of the transformation taking place in the country's insurance industry.

It comes against the backdrop of rapid consolidation in the European insurance sector fuelled in large measure by the imminent European monetary union and the diminishing frontiers between banking, finance and insurance. In the past few years, Italian insurance groups have started responding to the challenges of increasing international competition. But until recently the reaction had been somewhat timid.

It largely involved internal restructuring to lower costs, agreements to forge "bancassurance" links with banking groups, and the gradual development of new financial products to meet changing consumer demands. Italian insurers have also faced growing competition on the domestic market from other, larger European insurers who have seen in Italy a potentially significant market for new pension fund related products.

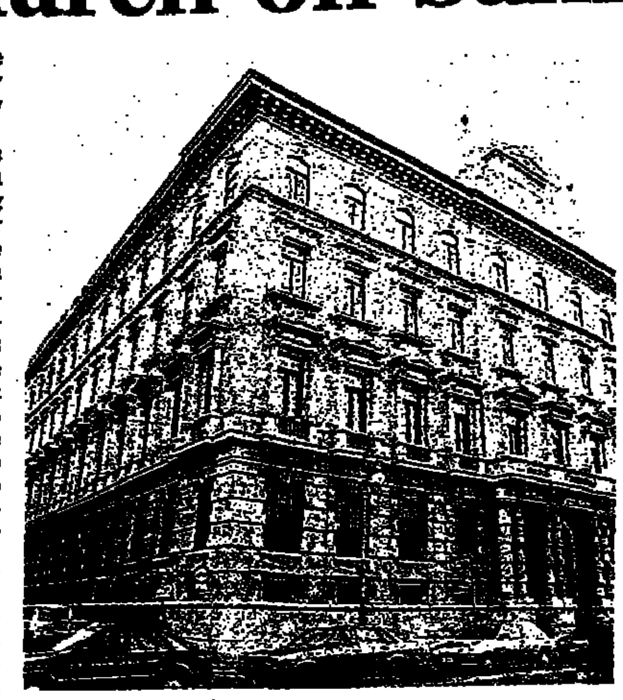
The crisis in the Italian welfare system and state pension reform, albeit still at an early stage, are expected to provide the impetus for the development of a new pension fund industry. At the same time, the dramatic decline in interest rates and government bond yields has also led to a rise in mutual funds which the insurance sector sees as a potentially attractive source of new business.

To some extent, Italian insurers have stolen a march on the country's banking system to restructure their domestic operations. While the Italian banking system is currently seeking to consolidate itself to improve its efficiency and competitiveness – in the past year there have been a series of important new banking concentrations such as the marriage between Banco Ambrosiano Veneto and the Cariplo savings institute – the insurance companies are beginning to look outward.

"In the banking sector there have been, so far, no significant cross-border deals," explains Mr Sergio Siglienti, chairman of the privatised INA group, Italy's third largest insurer. "Italian banks are still looking inwardly. But most insurance companies have already done what the banks are trying to do domestically. They can therefore start looking across our borders," he says.

Before its recent foray into France, Generali had been streamlining its Byzantine structure of businesses as well as shedding some of its traditional secrecy. It hosted this summer, for example, its first meeting for financial analysts. In view of its size, the leading Italian insurer had long been regarded as a potential consolidator in the European insurance industry. But until its hostile bid for AGF, it had appeared somewhat shy in its acquisition approach.

After being outmanoeuvred by the French Axa group, which merged with another large French insurer UAP, Generali sold its 10.5 per cent stake in Axa last year. It was then thwarted in its bid for Creditanstalt of Austria. The acquisitions it made were minor compared with its overall size. These included the acquisition of Prime from Fiat and Migdal in Israel.



The "Lion of Trieste" has started to roar

Its decision to launch a hostile bid for AGF was widely seen as a sign that the "Lion of Trieste", as Generali is sometimes known, had finally started to roar. Its move has led to frenetic efforts on the part of AGF to defend itself from Generali's clutches. The French insurer found a white knight in Germany's Allianz which has made a friendly counterbid for AGF. In turn, Generali has now put in motion a plan to set up a substantial war chest to prepare itself for a bidding war against Allianz.

Generali has also left itself the option to strike a deal with Allianz or possibly go after another crossborder target. Allianz and AGF have already indicated they would be prepared to sell their respective stakes in AMB, Germany's second largest insurer, to the Italian group and possibly other assets including the French Athena insurance company.

Whatever happens, the repercussions are expected to be felt throughout the Italian insurance and banking industry. Generali has long established links with Banca Commerciale Italiana and Mediobanca. Any eventual acquisition of significant scale would entail a radical reorganisation within Generali and its banking partners. This is likely to accelerate even further the modernisation of the Italian banking system.

Allianz itself, which controls RAS, Italy's second largest insurer after Generali, has played an instrumental role in the reorganisation and restructuring of Credito Italiano, the big privatised Milan commercial bank now regarded by most financial analysts as possibly Italy's most dynamic and forward looking large bank.

INA, for its part, has also been aggressively and successfully reorganising its structure. Since privatisation, it has shed non core insurance activities, reducing staff costs and renewing management. It has taken part with Banca Nazionale del Lavoro in the rescue of the troubled Banco di Napoli in a move largely designed to enhance its "bancassurance" activities and its retail network. Other Italian insurers have also established similar close links with banking groups.

INA has now gone a step further. It is planning to spin off its L5,000bn property portfolio and form a separate company to be quoted on the New York and Milan stock exchanges. The new property company would become the biggest in Italy and the largest quoted on Wall Street. INA is also seeking an industrial partner to take a stake and manage the new property company. The operation is designed to improve returns to shareholders. As Mr Siglienti, INA's chairman, explains: "Once the property assets are split, our insurance business would immediately show a return on equity of between 10-12 per cent compared with the group's current return on equity of 5-6 per cent."

About half of INA's capital is invested in property, which has traditionally offered lower returns than the group's insurance activities. The property interests currently have a net return on equity of only 1.6 per cent.

But in the current climate of crossborder consolidation in the European insurance industry, INA's decision could leave the Italian insurer more open to takeover. Until now, INA's property interests were regarded as a "poison pill" of sorts. Without them, Italy's third insurer risks becoming a tasty acquisition morsel.

BANKING • by David Lane

Revival of the petrified forest

Ownership of leading Italian banks is heading into the private sector

This has been a good year for investors wanting to have a punt on Italian bank shares. People who had some fat in their Christmas shopping budgets had the opportunity to buy shares in Banca di Roma, Italy's second biggest bank, at the end of November.

And for investors whose funds do not completely dry up with paying for the festivities and year-end bills, the substantial capital-raising operation that Banco Ambrosiano Veneto (Ambroveneto) launched on November 24 will be underway until after the new year. The aim of this operation is to provide funds to finance the purchase of Cariplo, the country's third largest bank.

Once described as a petrified forest, Italy's banking system has been giving signs of life. Istituto Bancario San Paolo di Torino, Italy's biggest bank, led the way in May, when its controlling local government foundation (the Compagnia di San Paolo) made a secondary offering of shares to raise about L2,700bn. The retail offering was four-times subscribed.

A group of core shareholders, including insurer Reale Mutua Assicurazioni and Agnelli/Fiat companies IFI and IFIL, had acquired 22 per cent of San Paolo's equity in a private placement earlier in the year. Following the secondary offering, the Compagnia's shareholding in the bank fell to just over 20 per cent, from almost 66 per cent at the beginning of the year.

Ownership of Italy's largest banks is heading into the private sector, starting to fulfil the promise of 1990's Amato Law which aimed at privatisation and concentration in the banking sector. In May 1989, treasury minister Carlo Azeglio Ciampi, then the Bank of Italy's governor, noted that two thirds of the banking system was in public ownership. There have been changes.

San Paolo's initial public offering of shares was made in March 1992, when 20 per cent of the equity was sold. Credito Italiano and Banca Commerciale Italiana were completely privatised at the end of 1993 and beginning of 1994 respectively, when the IRI state holding corporation sold its controlling interests through secondary offerings.

Italy top ten banks (1996)

	Tier one capital $m	Assets $m	Pre-tax profit $m	Return on assets %
Cariplo	6,615	125,992	65	0.05
San Paolo di Torino	5,943	171,317	633	n/a
Banca Nazionale del Lavoro	5,806	112,357	290	0.26
Banca di Roma	5,862	141,077	196	0.14
Banca Commerciale Italiana	5,327	175,448	557	0.48
Istituto Mobiliare Italiano	4,889	52,228	647	1.24
Monte dei Paschi di Siena	4,853	83,177	482	0.52
Credito Italiano	3,504	114,378	574	0.50
Cariverona Banca	2,387	23,017	382	1.66
Rolo Banca	1,917	40,618	422	1.04

Source: The Banker

The treasury ministry sold Istituto Mobiliare Italiano, a financial conglomerate, in three steps between 1994 and 1996. Even so, the public sector still controlled more than one half of the banking system last year.

Banca di Roma's share offering was essentially a recapitalisation to regain strength after several difficult years and consolidated 1997 half-year losses of L2,963bn. IRI sold its 36.5 per cent interest in the bank during the operation, however. And Ente Cassa di Risparmio di Roma, a local foundation with a controlling stake of 52.3 per cent, was expected to dilute its shareholding to 32.7 per cent.

Milan's Cariplo, owned by a local government foundation, will do even better. When Ambroveneto has completed its operation, the foundation's stake will fall to between 25 and 30 per cent. Fellow core shareholders in a holding company owning both Ambroveneto and Cariplo bank will be Credit Agricole, with a similar interest, and insurer Alleanza with about 10 per cent.

Addressing Associazione Bancaria Italiana (ABI, the Italian banking association) in June this year, Mr Ciampi observed that the banking system's poor performance was due to insufficient share capital being on the market. He says that shareholder pressure encourages banks to adopt measures aimed at boosting profitability.

Italy's banks certainly need to give more attention to profits. Their overall record has been dismal. Average return on equity was a miserable 1.6 per cent between 1993 and 1995, compared with 17.1 per cent in Britain and 14.9 per cent in the USA.

Return on equity improved to an average of 2.7 per cent last year, though this was due to rising financial markets. Overstaffing and inefficiency are deep-rooted. Antonio Fazio, the Bank of Italy's governor, was on target when he told the bank's annual meeting that modest profitability was a widespread problem among Italian banks.

There are, however, significant regional variations. Banks in north-east Italy, the best-performing region, had an average return on equity of 6.7 per cent. Results from the troubled south, where several major bank disasters have happened over recent years, have been abysmal.

Banca di Roma's half-year results are part of the pattern of poor quality loan books, high default and write-offs that has enveloped Banco di Sicilia, Caripuglia, Carical and Banco di Napoli. The Sicilian savings bank, Sicilcassa, was placed in liquidation in September. Caripuglia which lost L401bn in 1996 and Carical which lost L369bn are subsidiaries of Cariplo. "Southern banks are a disaster and we would not have got involved had we known the extent of the difficulties," admits Sandro Molinari, Cariplo's chairman.

Why should investors put their money into Italian banks? Trust may be one reason. Banca di Roma forecasts a return on equity of 6 per cent next year, 8 per cent in 1999 and 10 per cent in 2000, and a return to dividends after four years during which shareholders will have been without.

Another reason is the share performance that some banks have given this year. San Paolo's shares, priced at L10,435 for the secondary offering in May, were being traded at over L14,000 in the last week of November. Ambroveneto's share price has advanced from a 1996/1997 low of L1,257 to over L6,000 in the last week of November.

In its Milan market report published in October, Giubergia Warburg, a leading securities house, put a hold recommendation on San Paolo shares, while recommending to buy for Ambroveneto. "In two to three years the Ambroveneto-Cariplo combination could be looking at about L700bn of annual cost savings. That is big money," says Marcello Sallusti, a Giubergia Warburg analyst.

Shares in Credito Italiano, bumping along at around L1,600 at the beginning of the year, had improved to over L4,700 by the last week of November. Alessandro Profumo, the bank's managing director, expects return on equity to improve to 7 per cent this year, from 4.7 per cent in 1996, and to hit 11 per cent next year. Shareholders could be rewarded with strong earnings growth as well as capital gains.

Giubergia Warburg also recommends buying Credito Italiano's shares. "Focused retail strategy and tight cost control are delivering," says Mr Sallusti. Perhaps Mr Ciampi's hopes that market forces will compel bank management to sharpen up and put profit among the priorities are at last being realised.

PRIVATISATION • by David Lane

Loosening the grip

Sell-offs mean loss of influence for the politicians and payroll cuts for businesses

The arms of government stretch widely across the Italian economy, although central government's role is now declining and much of the state's involvement is well known. Ministries in Rome still have the capacity to surprise, however. In what other countries of the European Union are spectacles and rope factories owned by ministries of defence?

Local governments' grip on economic activity is less known, but ownership by town authorities and some regional governments is pervasive. It embraces public services such as water supply, drainage, water treatment, gas distribution, electricity production and distribution, and waste management. The public hand extends to transport and the provision and mangement of car parks. And town and city authorities are owners of substantial real estate assets.

Occasionally news of asset sales throws light on where the urge to own has taken local authorities. At the end of October, Turin's city authorities announced that they were auctioning two city-owned pharmacies, placing reserve prices of about L1bn on each. One week later the Sicily regional authorities gave the go-ahead to the sale of the winemaker Duca di Salaparuta, well-known for its Corvo brand.

Privatisation is not a completely alien idea to Italy's municipalities. Indeed, the city of Genoa took the lead a year ago by partially privatising its gas and water company, Azienda Mediterranea Gas e Acqua (AMGA) through an initial public offering to institutional and retail investors that reduced the city's shareholding to 51 per cent and raised about L200bn.

Turin is currently getting attention from foreign electricty companies interested in buying into the Italian market. The city authorities are seeking a strategic partner to buy 43 per cent of the capital of Azienda Energetica Metropolitana Torino (AEM), the electricity utility. An announcement in July calling for expressions of interest in AEM drew responses from 32 energy concerns. Turin's timetable foresees the announcement of a short list of candidates by the end of December and completion of the sale by next summer.

One of the expressions of interest in Turin's AEM was from Milan's energy utility, also called AEM. This is expected to be partially privatised as well, though the route that the Milan authorities are taking is flotation and an initial public offering targeted at retail investors. A similar approach is likely to be adopted in Rome, where the capital's authorities have transformed the ACEA water and electricity utility from a special board into a joint stock corporation.

Several large municipal energy utilities have recently been transformed into joint stock corporations. This is necessary before equity can be sold, and some city councils have declared their intention to do so. The Trieste utility ACEGAS became a joint stock corporation in July and within three years its share capital will be opened to outsiders. Parma's AMPS electricity and gas board will become a joint stock corporation in January and the city authorities will be seeking outside investors by the end of 1999.

Modena and Cremona are far from alone, however, in saying that any form of privatisation is not for them. Moreover, even where councils are considering selling equity in their energy utilities, maintenance of control is not in question. Genoa set the style by keeping a majority interest when floating AMGA and other cities and towns are following.

Notions of public service and strategic interests underlie the reluctance of local governments to withdraw from active roles in their local economies. But even operations where it is difficult to argue such justifications, Italy's towns and cities cling to their assets. The Rome authorities sold the Centrale del Latte dairy to the private sector earlier this year but will maintain a 5 per cent stake.

Even apparently non-contentious operations encounter serious obstacles. Opponents of the dairy disposal in Rome and of the transformation of ACEA into a joint stock corporation were able to force a local referendum in June. On a low turn-out, Romans voted in favour of the sale and of ACEA's change by a whisker.

One reason for the public's lack of enthusiasm is that privatisation has never enjoyed strong and consistent political support. Only one government has tried to explain the whys and wherefores: the technocrat administration headed by Carlo Ciampi published and gave widespread distribution to a booklet four years ago.

Mr Ciampi was not a new convert. He had long urged that the state should withdraw from activities that were not its proper concern when he was governor of the Bank of Italy. His annual address in May 1991 highlighted the need for change in the nature and size of the public sector's presence in the economy. His administration from April 1993 to April 1994 managed Italy's first large privatisation retail share offerings.

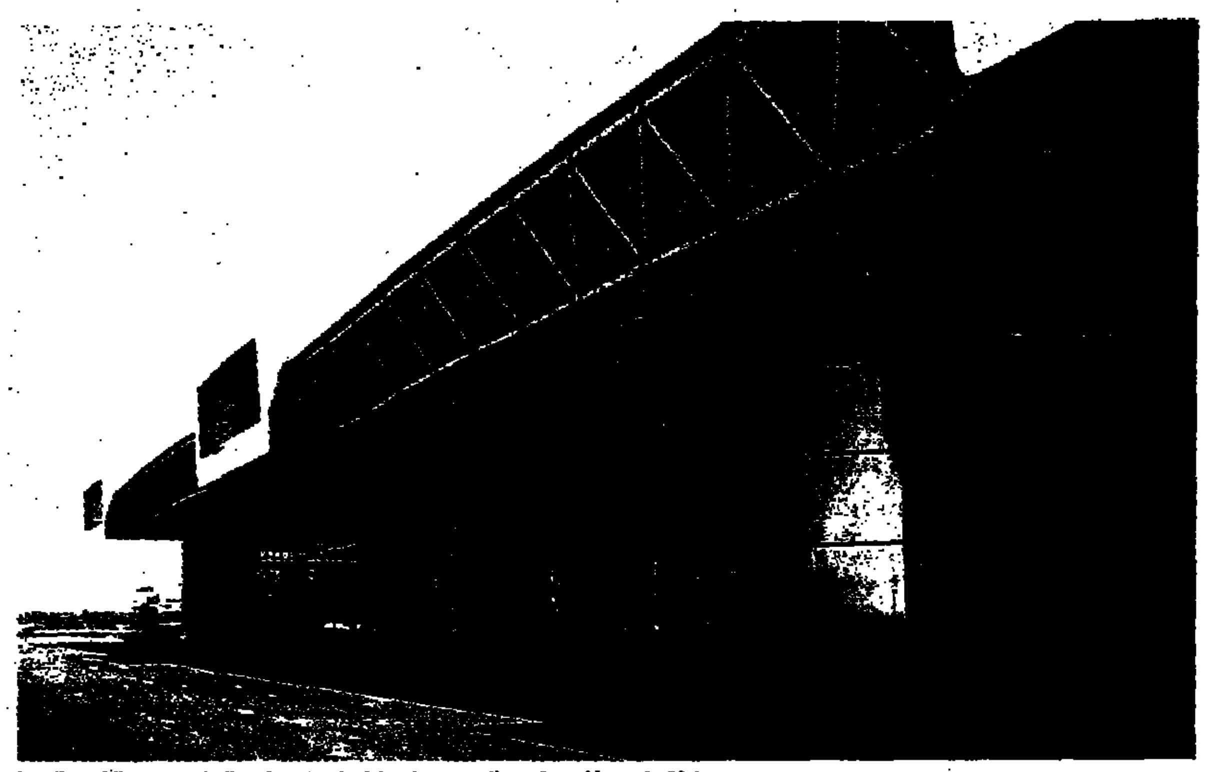
As treasury minister in Romano Prodi's Olive Tree government, Mr Ciampi has been able to harvest more privatisation fruits. A third tranche of shares in the ENI energy and chemicals conglomerate was sold in June, reducing the state's stake to just over 50 per cent. Aeroporti di Roma was floated in July, leaving the IRI state holding corporation with a 54 per cent interest. Telecom Italia was completely privatised in October.

Meanwhile local governments dilly-dally. Dairies and pharmacies seem eminently reasonable subjects for privatisation. Yet many local governments continue to list these among their assets. Funeral services are another business in which city and town councils are widely involved. According to the 1997 yearbook published by CISPEL, the confederation of local government public services, the local authorities own the fish market in Chioggia and the fruit, fish and meat markets in Florence.

Perhaps a difficulty for Italy's city bosses is that their many businesses provide jobs. And jobs mean votes. Privatisations certainly mean loss of influence for the politicians and probably cuts in payrolls for the businesses. Local politicians are too close to the effects of their decisions to be enthusiastic about privatisation.

Italy's towns and cities cling to their assets: The public hand extends to transport

CASE STUDY Malpensa Airport



Leading airlines are challenging the decision to move them from Linate to Malpensa

Squabbles mar take-off

Italy's creaking infrastructures and transport system are fast becoming one of the country's biggest headaches. Despite many fine words and political pledges, budgetary rigour coupled with deep-rooted structural inefficiencies have continued to delay long overdue improvements of the country's road, rail and airport network.

However, Italy will soon finally open its new international airport hub of Malpensa about 45km outside Milan at the foothills of the Alps.

The L2,000bn Malpensa project has been plagued by political squabbling and even on the eve of its official opening continues to be the subject of fierce controversy.

Europe's leading airlines are challenging the government's decision to force them to switch all their operations from Milan's Linate airport, much closer to the city centre, to the Malpensa next year. They argue that the move is discriminatory and anti-competitive because it will strongly favour the Italian national flag carrier, Alitalia, which will maintain its shuttle from Linate to its Rome Fumicino airport hub.

Consumers are also alarmed because crucial road and rail infrastructure around Malpensa has yet to be completed. At present a taxi ride to the heart of Milan from Malpensa costs L120,000 compared with about L30,000 from Linate.

When the project is completed, the Malpensa terminal will be able to handle 18m passengers annually plus the 6m passengers the old Malpensa north terminal can already handle. The government has justified the move to Malpensa on the grounds that Linate has become one of Europe's most congested airports. Equipped to handle 8m passengers a year, it is currently used by about 13m when it is not shut down by fog.

Paul Betts

PROFILE **Fiera Milano**

Cannes, Hollywood? No, Milan

Movie makers and distributors are doing business at Milan's Mifed fair

Hollywood and Cannes remain the main centres for anyone seriously involved in the business of making, selling and distributing movies. But each October Milan takes its place in the spotlight with the Mifed, the cinema and television international multimedia market, providing the opportunity for industry insiders to meet and buy and sell new projects.

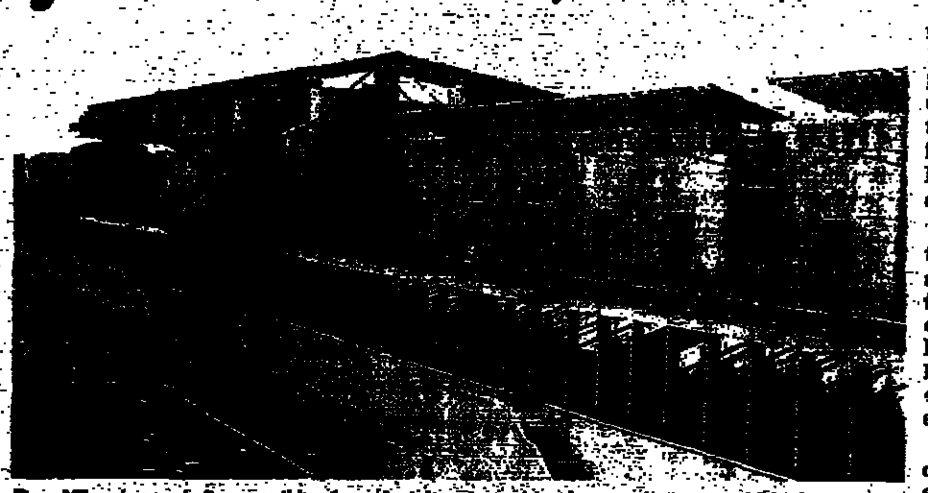
This year's Mifed – the 64th – saw a significant increase in attendance. No fewer than 278 companies were there, 142 from the US, 35 from Italy, and 28 from the UK. The number of companies coming from East Asia also increased substantially.

Organised and hosted by the Milan Fair (Fiera Milano), the market is held in the fair's CISI building and the halls A1 and B1 which resemble the back blocks of movie studios. On a foggy, damp October day, there is virtually no one outside. Inside, people scurry between appointments – there are men here in Stetsons and cowboy boots, and tiny women wearing big hair and glitzy fashions.

Mobile phones are essential – the market covers 11,000 sq m – and scheduling is tight for the screening of 418 movies, 240 of which are premieres, in the 27 cinemas. The most frequent complaint is that films worth buying are snapped up by lunch time on the first day.

The Milan Fair oversees, operates or leases space for fairs covering everything from shoes, to jewellery, travel and machine tools. Mifed does not attract large volumes of visitors. It concentrates on companies at the core of the business providing a state-of-the-art business centre and screening rooms.

Associated conferences are conducted by the Fiera Milano Congress company and are held either at the Fiera Milano in the city or in Villa Erba, the 19th century home of the Viscount di Modrone. In its grounds, which overlook Lake Como, there is a new conference centre with architecture reminiscent of a botanical garden conservatory. Delegates often commute to the site by ferry from the luxurious Grand Hotel Villa d'Este and other lakeside hotels.



Fiera Milano's new halls: everything from dental equipment to glass products are exhibited

Mifed embodies Italy's efforts over recent years to attract international investment and goods. Its sponsor, the Milan Fair, which has long been regarded as the showcase for Italian-made goods. The fair has sought to boost small- and medium-sized Italian companies overseas by organising trade events such as the BYT Italia, an annual exhibition of Italian consumer goods in Moscow. The fair also conducts roadshows from offices in 26 countries, and its branch in Shanghai has sought to take exhibition know-how to China. It is one of several Italian fairs which has joined forces with trade associations and unions under the Ministry of Industry and Foreign Trade. The plan is to set up a working committee to promote Italian exhibitions abroad.

In 1996, Fiera Milano hosted more fairs than any other venue in Europe, and sold 1,437,484 sq m in floor space. In that year, revenues totalled L237bn, a 17 per cent fall from the previous year because of the cost of staging two large touring shows. Net profits fell from L18bn in 1995 to L8.7bn last year, largely due to increased taxation.

The Fiera recently opened two of three huge new halls at a cost of L370bn. The third will be completed by early next year. The new halls, designed by Mario Bellini, will add 40,000-47,000 sq m of exhibition space.

But there have been complaints about the traffic snarls caused as visitors try to reach the fair's 14,000 parking spaces.

A KPMG survey commissioned by the the European Major Centres' Association reports that in 1997, Fiera Milano generated L3,000bn through its exhibitions and associated services, of which L2,000bn remained within the Lombardy region, an area where business tourism comprises 80 per cent.

Marian Edmunds

Ettore Batisti, GI's president: "we learned a lot from Gildemeister"

MACHINE TOOLS • by Peter Marsh

Tooling up for better business

Italy's machine tool industry is ***holding steady*** **despite some minor shake-ups**

Two of the leading companies in Italy's machine tool industry have come under new owners.

Mandelli Industrie, manufacturers of machining centres, went into bankruptcy in the early 1990s. A consortium of new owners took over the company just over a year ago.

The company's new chief executive, who also owns a fifth of the stake, is Andrea Mattarelli, a 37-year-old entrepreneur who says there are benefits to coming into machine tools as an outsider.

"It is good to enter this business with a view of how other industries operate," he says. "Too many people in machine tools have been in only one industry all their lives."

Another famous name to undergo a shake-up is Gildemeister Italiana, which between 1970 and last year was a subsidiary of Gildemeister, one of Germany's largest machine tool companies. Last year, the German group sold its 75 per cent stake to raise cash to reduce crippling debts. This left its former subsidiary to chart its own course as a public company quoted on the Milan stock exchange.

Ettore Batisti, GI's president, who has worked at the company since the 1970s, says: We were always run as an independent unit. Now [that] we are completely on our own, we see a lot of opportunities for developing our sales."

For the time being, GI will continue to keep its former German parent's name – even though this often creates confusion with customers. It may think of a new title after 2000.

Italy's machine tool sector is expected to have sales this year of some L6,000bn (about £2.1bn), 3 per cent ahead of last year's total. These figures confirm that recovery is occurring since the Europe-wide recession of the early 1990s. Italy has the second biggest machine tool industry in Europe, after Germany, and the fourth largest in the world.

Even though year-on-year growth has slowed since 1994 and 1995, the industry is fairly optimistic about the next few years. Between 1993 and 1996, Italy's share of world machine tool production rose from 7.7 per cent to 9.6 per cent, narrowing the gap with the US – the world's third biggest tool manufacturer. Japan is ranked number one.

Of the 500 or so leading companies in the Italian industry, almost all are privately controlled. Most have fewer than 100 employees – with company size kept down by the policy of outsourcing component production to other, smaller businesses.

While the private ownership of most of the industry provides a certain stability, one result is that companies sometimes run into barriers to growth through lack of funds for investment.

That has been the predicament at Manzoni, a family-owned maker of pressing machines for sectors such as domestic appliances and vehicles. The company, based near Milan, has doubled its output in the past seven years. Its sales this year were L185bn. However, according to Alessandro Manzoni, vice president, the company needs an extra source of capital to continue on its growth path.

He and his mother, Lucia Manzoni, the company's president, are talking to financial institutions about issuing shares to the public in the next two years. The move is designed to raise L30bn to continue the company's expansion.

While Manzoni is preparing to go public, Piacenza-based Mandelli has gone in the opposite direction. Established in 1932, the company prospered for much of the post-war period. In 1989 the family owners floated 30 per cent of the shares on the Milan exchange.

But over-ambitious expansion plans, combined with the effects of the early 1990s recession, sent the company into receivership. It was eventually rescued by Mr Mattarelli and four other private groups, which each own about a fifth of the company. The new owners include M.M. Warburg, the private German bank, and two small industrial companies – Sitindustrie and PLLB Elettronica.

After paying L47bn for the company, Mr Mattarelli and the other shareholders have instituted a L24bn investment programme. This is aimed at re-organising production and switching designs of new machines so they can be customised to meet the needs of users in industries such as agricultural equipment, textile machinery and aerospace.

Mr Mattarelli, who previously worked in the venture capital industry, electronics and shipping, has also started up a division to fit new equipment to existing Mandelli machines. He thinks this will help the company ride through the slumps in demand for new equipment.

The company is likely to make a small profit this year on sales of about L100bn (roughly £30m). Mr Mattarelli is forecasting a pre-tax return of some L8bn in 1998 on sales about 20 per cent higher.

Another confident man is Mr Batisti at GA, which its previous German owners always described as one of the jewels of the Gildemeister operations. The company is a leader in the area of multi-spindle lathes, for use in the car industry for instance. The company has tripled annual sales in the past five years to DM150m (about L150bn) – in that time pushing up employment only by 50 per cent to 450. Mr Batisti is predicting another 20 per cent increase in output next year, with most of the growth coming from exports – which account for 70 per cent of sales.

Another machine tool company anticipating healthy growth both in sales and productivity is Pietro Carnaghi, based in Busto Arsizio. This company specialises in large vertical lathes used in industries including aerospace, power engineering and construction equipment. Flavio Radice, managing director, says orders, particularly from the US, have been strong. He is looking to boost sales from DM45m this year to DM60m in 1999, with virtually no increase in the company's employment of 110. "The outlook is excellent. We are being forced to rent more factory space to keep up with demand," he says.

FRENCH FINANCE AND INVESTMENT

Cracks are beginning to appear in the cocoon that once protected the corporate sector. **Andrew Jack** reports

Conflicting forces tug at Jospin

The French corporate sector, like the country's left-wing government elected just over six months ago, is at a critical stage, torn between a range of powerful and sharply conflicting forces.

Lionel Jospin, the new prime minister, is being pulled in one direction by the hardline ideological commitments of his Socialist party's election manifesto and by the demands of his ruling coalition partners, including notably the anti-euro Communists.

He is tugged in another direction by the need for widespread structural economic reform which is driven by the pressures of globalisation, economic and monetary union and intensifying regulatory and competitive demands in the European Union.

Similar fissures are appearing in French business. The cosy world of protectionism, cross-shareholding and state control is crumbling faster than many expected as foreign competitors enter the market and more vocal institutional and individual shareholders push for better returns on their investments.

New domestic pressures – in the form of rising tax charges and social legislation – are adding to the burdens of competitive distortions and relatively low profitability, making companies suddenly more vulnerable to takeovers.

Overall, Mr Jospin has shown himself to be more pragmatic than dogmatic. He may have distanced himself from the old Socialist party of the late François Mitterrand, one of the architects of economic and monetary union, but he has resolved that history should judge him as the midwife and not the undertaker of the euro.

Hence his decision to ratify the stability and growth pact at the Amsterdam summit in June – albeit with a little tweaking in an attempt to raise the emphasis on employment, notably by helping to launch the Luxembourg jobs summit in November.

In spite of pre-electoral calls for an end to privatisation, he has proceeded with the sale of a minority stake in France Telecom and majority control of the banking network CIC. He has also indicated that other sell-offs, including Air France and the insurer GAN, will follow.

Mr Jospin has also shown that left-wing governments are often more able to introduce sensitive reforms than those of the centre-right with the restructuring of the defence industry and a decision to means-test family allowances.

But the burden of a near-record unemployment rate and growing discontent over this issue among more radical members in his coalition has weighed heavily on the prime minister. That, coupled with his determination to fulfil the form, if not always the substance, of his election pledges, made him proceed with the creation of 350,000 publicly-funded jobs.

More significantly, it has led him to pursue his controversial campaign promise to reduce the legal maximum working week, from 39 hours to 35 hours without a drop in pay. Reaction to this move is proving an important turning point.

The government argues that a complex mixture of subsidies, productivity gains and reduced wage demands will make up any losses suffered as a result of shorter working hours. It also maintains that the measure is pragmatic, because the supplementary charges imposed on hours beyond the 35-hour maximum will only be set out in a second law at the end of 1999, and could be very low.

The result, however, is that companies now face two years of uncertainty about the contents of the final regulations. Some may exploit the intervening period to hold talks with unions, and negotiate more flexible employment contracts.

Others plan to compensate for the short-term drop in productivity resulting from the measure with job reductions. It is no surprise, therefore, that officials and even some ministers admit that working-time reduction is at best only one of a number of solutions to unemployment.

The negotiations on the working week also reflected new tensions in the way the Jospin government chooses to operate. The prime minister hosted a one-day jobs summit with unions and employers during which the proposals were supposed to be thrashed out.

In reality, it was clear the decisions had been made in advance. The charade was not maintained for long. Jean Gandois, the head of the CNPF, the employers' federation, stormed out with his delegation, and resigned three days later.

His heir apparent, Ernest-Antoine Seillière, has called on businesses to "destabilise" Mr Jospin, and has warned that the federation may withdraw from the social security organisations that it co-manages with the unions. That could spell the end of France's already fragile post-war corporatist model, and foreshadow more tense relations between employees and employers.

The remarks may be overdramatised, but they illustrate the increasing difficulties faced by French business. French companies are placed at a disadvantage compared with most of their European competitors in terms of corporate tax – "temporarily" raised to 41.6 per cent this summer – income tax, social security charges and a multitude of local business rates.

No surprise that much French investment is going abroad and large numbers of young French managers and even businesses are emigrating, including tens of thousands based in London, notably in the financial services sector.

Meanwhile, French companies face longer-term challenges which this or previous governments have failed to tackle. Many were privatised with little thought to the competitive distortions they faced, such as the powerful presence of the mutuals, savings networks and the Post Office in the insurance and banking sectors.

Many companies lack the funds to undertake ambitious acquisitions. Hence the use of complex financial instruments – such as "certificates of guaranteed value" – rather than simple shares or cash in the takeovers of the insurer UAP by Axa and the retailer Casino by Rallye.

The approach also illustrates the workings of a broader system of capitalism without capital. It is unlikely to be changed until the government meets its vague pledges to resume stalled legislation on the creation of pension funds which can be invested in equities.

The French system is regarded as one of capitalism without capitalists. An older generation of ex-civil servants and political appointees are, however, being replaced by younger top managers with international experience who are focusing on shareholder value.

The sale of stakes held by the state and the unwinding of cross-shareholdings have made French companies vulnerable to takeovers. Foreign investors already exert considerable power, holding more than a third of all equity and about 50 per cent of Elf, the country's largest industrial group.

The insurer Generali of Italy broke a final taboo this September when, as a foreign company, it launched an unprecedented hostile bid of FFr55bn for AGF. There was a political backlash, with calls for efforts to limit foreign takeovers.

But probably more significant was the fact that AGF was unable to turn to any of its traditional corporate allies and find a French "white knight" to save it. The company was forced instead to go to Allianz of Germany, sacrificing its independence.

"We are clearly suffering from a lack of profitable financial institutions compared with Britain, Germany and the Netherlands, which have the capacity to manoeuvre and make acquisitions," says one chief executive. "If the situation carries on much longer there will not be one that remains independent here."

Dominique Strauss-Kahn, France's economics, finance and industry minister, plays down the domestic tensions, and highlights the continued popularity of the country to foreign investors. But for every Toyota, which seems set to open a factory with substantial government subsidies, there is a Daewoo, which has put its plans on hold.

Some companies are investing in France now because it is within the euro zone and is the fourth largest economy in the world. But that ranking will not be sustained without further considerable reforms.

THE ECONOMY • by Robert Graham in Paris

Careful with the purse strings

The government has sought to erase memories of the era of easy spending

France's left-wing government has gone out of its way to prove it can manage the public accounts in a *responsible manner* and so erase memories of the easy-spending Mitterrand era.

The result of this sober financial management is a 1997 budget deficit that will be brought in on target at 3.1 per cent of gross domestic product.

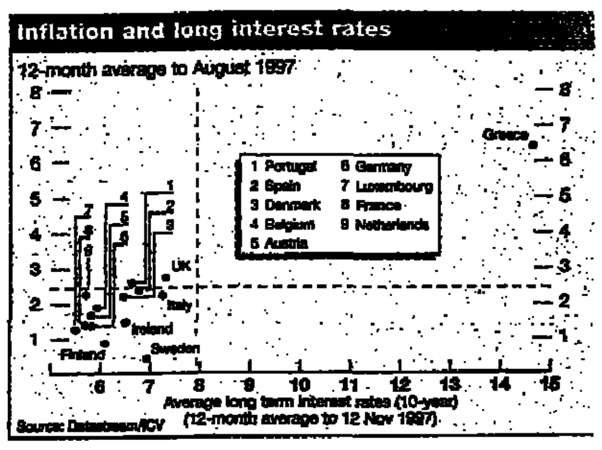
Though a better performance than many commentators predicted, the Jospin government has opted for the uppermost limit of the Maastricht criteria on budget deficits. All of France's main EU partners, and notably Germany, have made – and are making – a far more strenuous effort to impose austerity.

Next year's French budget is only aiming for a 3 per cent deficit and that of 1999 modestly below this mark. Premier Lionel Jospin is determined to try to balance the demands of European monetary convergence with the need to bring unemployment down from an unacceptably high 12.5 per cent.

The government's corrective measures to the 1997 budget, as well as the 1998 budget, avoid any serious attempt at structural change either on the fiscal or spending side.

The balancing receipts have come from higher taxes, notably on corporations – so pushing overheads to levels that risk undermining new investment. The deficit-ridden social security budget has been tidied but the main cuts have fallen in "soft" areas like defence where budget next year will be cut by 3.5 per cent in constant terms.

As a result France will be entering monetary union with a budget deficit whose size – in relation to GDP – will be almost double that of the other proposed members. The debt-GDP ratio is also rising, albeit marginally, while that of other Euro-zone hopefuls is falling or being held steady.



The finance ministry anticipates the debt-GDP ratio will only level off at the turn of the century. However, the ratio is due to stay just below the Maastricht criteria ceiling of 60 per cent of GDP.

The government has little, if no room, for tax cuts in the short term unless it were to change political course and opt for sensitive structural changes that cut away at welfare benefits and pensions.

Against this background, the success of the government's strategy hinges on low interest rates and a recovery that does not falter.

The economy looks set to enjoy 2.3 per cent growth this year. The recovery has been powered by an exceptionally strong export performance. Export volume is expected to grow almost 11 per cent this year, contributing nearly two-thirds of 1997 growth.

Sluggish domestic demand has kept import volumes down which has contributed to a record trade surplus which by the year end this should be nearly FFr200bn.

Even before the turmoil in Asia, economists had predicted that the export drive would slow next year, with the slack being picked up at home. But the effect is now likely to be somewhat different.

The European recovery – notably in France and Germany – looks more promising than a few months ago. Domestic demand has been improving steadily since the summer. But the Asian crisis is posing more problems by the week.

Asian sales account for less than 7 per cent of the total. But if other emerging markets, such as eastern Europe and Brazil, are included, the area at risk from slowing sales in the coming months is well over 10 per cent. Productive investments and capital goods-related sales are likely to be less affected; but the luxury goods market, important to France, will be hit hard.

In this light the 1998 growth forecast, conservatively framed by the finance ministry in September, could prove more difficult to realise than expected.

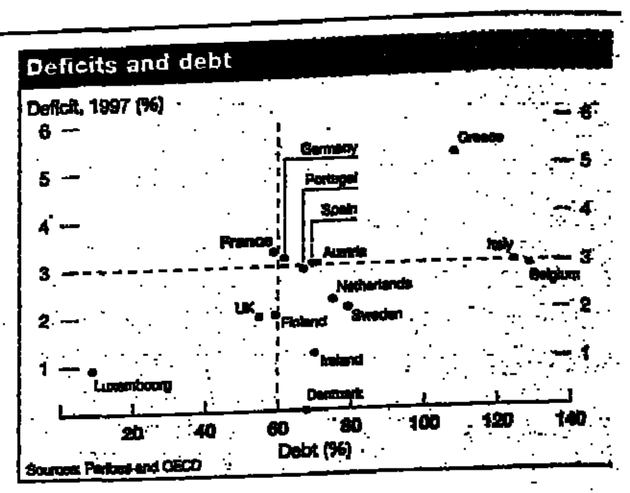
On the plus side for the treasury is the prospect that interest rates will be marginally lower than anticipated, so reducing the cost of debt service.

Savings of FFr7.8bn on the debt service bill have already been made this year. In addition upward pressure on prices is low, with 1998 inflation likely to be under 1.5 per cent.

When Lionel Jospin took office in June, his economic team under Dominique Strauss-Kahn inherited a deficit forecast for the year of FFr285bn. However, after a special audit in July, the government said the deficit would be between 3.35 and 3.8 per cent of GDP, if uncorrected.

The estimate took account of the previous administration's decision, criticised by Brussels, to raid France Telecom's pension fund. Without this one-off transfer the total deficit would have been running near to 4.2 per cent of GDP.

Among expenditures inherited from the previous Juppé government was FFr850m in credits for shipbuilding and FFr789m in a refund France was obliged to pay to the EU for unwarranted aid to agriculture. There was also FFr450m relating to the car-purchase incentive scheme that ended in September 1996.



The final cost of the incentives to help the depressed automotive sector and kick-start the economy has yet to be assessed. But it has taken almost a year for car sales to adjust to the steep slide caused by the ending of the incentives scheme.

Although it is tempting to conclude the July report was overly pessimistic and in particular under-estimated the recovery under way, the government was quick to react.

The deficit was plugged by taxing idle corporate cash and increased taxes on bigger companies' earnings. The social security deficit was eased by a near doubling of the general social security contribution.

The government also introduced cuts totalling FFr30bn, the main victim of which was defence. The latter savings enabled modest new expenditures of FFr12bn to fund youth unemployment and help low-income groups.

Last month Mr Strauss-Kahn announced these measures would mean that the 1997 budget deficit would be FFr14bn less at FFr270bn. It is the first time in four years that the French budget has undershot its target.

THE EURO • by Robert Graham in Paris

Past the point of no return

The finance ministry has begun a campaign to publicise the issues at stake

For the French government the route towards the euro single currency is past the point of no return.

On taking office Lionel Jospin, the Socialist premier, was hesitant about the political risks of pressing ahead with the budgetary measures necessary to comply with the Maastricht criteria. But he overcame his doubts before the summer and a central plank of government policy is now core membership with Germany of the new euro zone.

Jean-Claude Trichet's nomination as the first head of the European Central Bank instead of Wim Duisenberg (right) has irritated France's EU allies

To back this up, the finance ministry has just launched a campaign to make French business and the public at large aware of the issues at stake. Some 22m copies of a 16-page booklet entitled *L'Euro et moi* (The Euro and Me) have begun to be distributed alongside a nationwide advertising campaign on radio and television. In addition, a special free phone line has been installed by the finance ministry and briefing material has been sent to France's mayors. This extensive FFr39m propaganda campaign is being financed to the tune of FFr19m by the EU.

Despite this commitment to the euro, the public is largely ignorant and business remains uncertain about the real costs of converting to the single currency. An opinion poll conducted in October for the finance ministry showed almost two thirds felt they were ill-informed about the euro. The proportion rose to 85 per cent when people were questioned about the effects on the economy, jobs and purchasing power when France joined the single currency. This ignorance may help explain why in the same survey 68 per cent believed the euro would cause problems even if only temporary.

A sizeable portion of the electorate remains sceptical about the euro. The Communist party, a minority partner in government, is firmly opposed to the idea and is still campaigning for a referendum on the issue. The party has called for a national debate in mid-January. Even several deputies in the ruling Socialist party oppose the idea. On the hard right, the National Front is wholly opposed and its nationalistic arguements find an echo among the centre-right.

To counter the official pro-euro campaign, a group of centre-right deputies and academics late last month announced they would try to raise the level of public debate to ensure that the introduction of the single currency was delayed. Apart from loss of sovereignty over monetary and budgetary policy, the moderate euro opponents argue there is insufficient harmonisation of fiscal policy and social legislation within the EU.

Until now the government has done little to counter these arguements. It has focused at one level on trying to create mechanisms to stimulate jobs to offset criticism of the tight budgetary discipline imposed by Maastricht. The November Strasbourg jobs summit was one such initiative. At another level, Mr Jospin has sought to ensure a proper political counterweight to the European Central Bank (ECB) which can lay down the economic guidelines and foreign exchange strategy on which the new institution can base its monetary policy.

The government, in co-ordination with President Jacques Chirac, has also decided to propose Jean-Claude Trichet, the governor of the Bank of France, as the first head of the ECB. This decision, prompted by a desire to see a Frenchman guiding the key institution in Europe's monetary union, has caused considerable irritation among France's EU allies – not least the Dutch who believed Wim Duisenberg, their own candidate backed by the Bundesbank, was due to move naturally into the job from heading the interim European Monetary Institute (EMI).

The row over the future head of the ECB should not obscure the accelerating convergence between Paris and Bonn over the euro. In particular, at the central bank level the two institutions are already acting as the core of the future euro, along with the Netherlands. The Bank of France's short-term intervention rate is now aligned at 3.30 per cent with that of the Bundesbank. The Bank of France raised rates in October, when inflation was falling, as a co-ordinated move with the Bundesbank. This sent a strong signal over the future euro.

The French government insists interest rates in the future euro zone follow those of the core members. This means that rates do not rise to accommodate a mean average between the high of Italy and the low of France/Germany. In practical terms, this means France wants to avoid Italian participation in the euro pushing interest rates up to 4.5 per cent or beyond.

The list of euro members will not be formalised until May 1998, but the composition should be clear before this date. The Jospin government said in its election manifesto that the participation of both Italy and Spain in the euro was "possible and necessary". But the interest rate issue has yet to be resolved. This explains the continued unease at the Bank of France over the spectre of Italy with a quarter of the EU's debt joining the euro zone at the outset.

The parity of the franc against the euro is expected to be in the region of FFr6.60 to the euro. The rounding principles are already agreed at the EU level even if the precise effects are unclear. As of January 1999 individuals and businesses will be able to begin transactions in euros – even though notes and coins will not begin circulating until 2002. The large public utilities such as France Telecom, the telecoms company, and EDF, the state electricity company, will adopt as of January 1999 a double-billing policy.

However, individuals will continue to pay taxes on the basis of francs because of problems in adopting the finance ministry's computer software. This could affect how businesses chose to operate. They will have the option to go all-euro as of 1999, including readjusting capital and debt to the new currency. Equally, France's public debt will be denominated in euros from 1999. However, the first budget denominated in euros will be that of 2002, presented to parliament in September 2001.

It is estimated that the banks alone will spend about FFr25bn converting to the euro. But real conversion costs remain fairly abstract. The finance ministry has, however, said the costs will be in good measure offset against taxes.

The government has still not resolved the precise period during which national currency will be withdrawn from circulation even though it has proposed six months. France will have to replace 1.3bn notes and 10.5bn coins in circulation. France has told its partners the eight new euro coins are unlikely to be ready for circulation until October 2001. This is only three months before the January 2002 target set by the Madrid summit.

If introduced before the end of the year, it would create considerable problems for traders who have indicated they would prefer the introduction either earlier or after the designated transition period ends on December 31 2001. If the French wish to introduce the euro on or after January 1 2002, it would require a new decision by heads of government.

PROFILE Dominique Strauss-Kahn

Super-minister has a confident air

The government is satisfied with progress and is bullish about growth

Dominique Strauss-Kahn may look tired as he takes a break between rounds spent in the National Assembly pushing through the 1998 budget, but he is radiating satisfaction.

When asked what the new government has done since coming into office, France's "super-minister" for economics, finance and industry, jokes: "All that should have been done!"

It is a phrase that captures both the self-confidence of the new administration and a reprimand for Alain Juppé's centre-right government which it defeated in May.

Dominique Strauss-Kahn: radiating satisfaction

For a Socialist party elected on a campaign which shed doubt over the commitment to the proposed European single currency – and notably the potential evils of the Maastricht criteria – his first serious response is significant.

"(We have) ensured the credibility of the Euro, both from the point of view of France, which was somewhat in question in January; and at the European level, because six months ago it was not entirely clear whether we would have a single currency. Now no-one doubts it."

If the late François Mitterrand is one of the architects of the Euro, the "new" Socialist party led by Lionel Jospin has clearly resolved to be its midwife. The compromise was to add "employment" to the name of the "growth and stability pact" signed at Amsterdam in June, and to launch an employment summit at Luxembourg in November.

"Second, we have put the budget in order," he says. "There is still more to do, but we are heading towards a situation of falling public expenditure which will allow us to reduce taxes and charges. We look forward to seeing the ratio of debt to gross domestic product drop after 2000."

In an apparent response to concerns that high charges are among the factors which slow job creation, he reiterates that the increase in corporation tax, which is rising to to 41.6 per cent from 1997, is "temporary". He also points out that the previous government increased taxes before him.

Even so, the 1998 budget increased spending pressures by raising the number of people working in the public sector. This, however, was largely due to President Chirac's decision to professionalise the French army which had been staffed by those doing national service.

Mr Jospin is committed only to maintaining the number of public employees rather than to a reduction.

Mr Strauss-Kahn himself talked about the limited room for manoeuvre for cutting public spending when he presented the 1998 budget – largely because of the "rigidities" of salaries and pensions. But he did, however, imply that there could be scope for reductions in the future.

"The idea that Socialism is about greater taxes and greater spending is extremely old and extremely false," he says. "We have redressed the public accounts left to us by another government, from another party."

He highlights the costly measures taken by the previous administration – notably income tax reductions – which he argues had not been properly funded. "Juppé went as far as to suggest that taxes would be coming down when there was in fact an increase in spending."

In some areas, he concedes that the Socialists have back-pedalled on their manifesto pledges, such as on the partial privatisation of France Telecom launched in October. "It is a point in favour of the prime minister that once he had the file in his hands, he decided it would be better to open the capital to private investors. It shows he is capable of pragmatism," he says.

Indeed, he points to action to "close a number of files that have sometimes been left open or untreated for years" and which might, at first glance, be considered the prerogative of the political right. These are notably the restructuring and eventual sale of the defence and electronics group Thomson, and the troubled banks CIC, Crédit Lyonnais and Marseillaise de Crédit.

The Socialist party opposed legislation to create complementary pension funds for private sector employees – aided by tax breaks. Mr Strauss-Kahn maintains that elements in the draft law were "unsuitable", but he says there will be new proposals next year.

In this and other areas, he attempts to demonstrate a distinctive ideological approach to the centre-right. "We have implemented policies based on our belief that unemployment is not simply linked to economic growth. We have attempted to support consumption – with the minimum wage, the back-to-school allowance – and to leave purchasing power with households rather than confiscating it through tax increases."

He highlights the French effort at the Luxembourg summit to persuade EU countries to cut the rate of value added tax on products and services in labour-intensive sectors as one of a range of job creation initiatives. Such measures, he adds, will be taken from 1999.

Intriguingly, he does not cite the government's controversial plans to cut the length of the working week to 35 hours as one of the distinctive approaches taken to reduce unemployment - now more than 12.5 per cent.

Public companies, he says, will, in line with the private sector, respect the requirement to reduce the legal limit by 2000 but will not receive the tax-breaks the government is offering. He says no decision has yet been made on whether civil service employees will be affected.

If many – even in the administration – are suggesting that reduced working hours is at best one of several solutions to help boost job creation, it is clear that a recovery in economic growth is the most important.

Here, Mr Strauss-Kahn remains positive. Playing down the impact of the Asian financial crisis in Europe, he says it looks as if GDP growth for 1997 will be nearer to 2.3 per cent than 2.2 per cent. For 1998, he is banking on 3 per cent. The success of his government in the coming months will to a large degree depend on how correct these predictions turn out to be.

Andrew Jack

BANKING • by Andrew Jack in Paris

Outsiders steal the thunder

US and other foreign investment banks have scored some notable successes

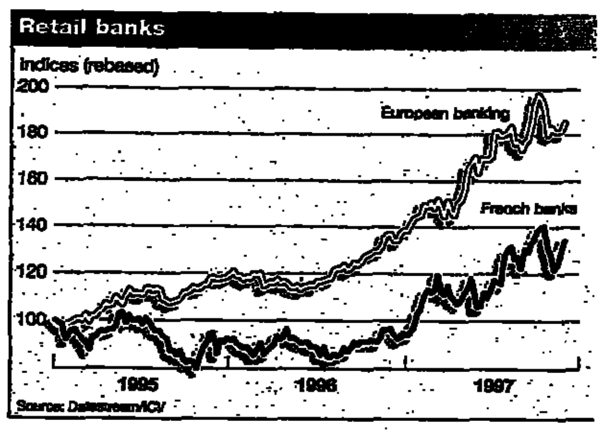
It has been a very good year for France's investment banks on the back of an intense period of activity. But profits can bring tensions and conflicts that will pose problems for the period to come.

Improved profitability, the stronger performance of the French equities market, the low rates of interest, and the pressures caused by restructuring across Europe, helped trigger a series of huge deals including several hostile takeover bids.

The changes also brought about a redistribution of power among the investment banks. There was shock and embarrassment at the start of 1997 with the publication of league tables suggesting that the unspeakable had happened: that most sacred and French of institutions Lazard Frères had been ousted from its dominant role as an adviser on mergers and acquisitions.

Worse, it had been replaced by an outsider, the US-based Goldman Sachs. Needless to say, the methodology was lambasted, the independence of the analysis drawn into question and the relative positions rubbished by all except those perched at the very top.

Michel David-Weill: welcomes the newfound competition



Yet the trend has since been confirmed. Lazard, long the giant of French deal-making, has been absent from many of the significant deals that have taken place recently – the merger of Suez and Lyonnaise des Eaux; the restructuring of the capital of Havas, Canal Plus and Compagnie Générale des Eaux; and the rival takeover bids for Worms & Compagnie.

Rothschild & Compagnie, busily recruiting well-known names from French business such as François Henrot from Paribas and Gérard Worms from Suez, has established itself as an increasing presence in the market.

US and other foreign institutions have equally scored some notable successes. In the past, they did particularly well on transactions with implications outside France. In contrast to the wave of privatisations in the 1980s, they have also increasingly found a role in state sell-offs, where there is a need to use their powerful international distribution networks to sell shares outside France.

But now their domain is expanding. Ironically, in the ongoing battle for control of the insurer AGF, for example, foreign advisers – Goldman Sachs and Crédit Suisse First Boston – helped the French group. It was domestic advisers which advised the foreign acquirers – Rothschilds for the "friendly" Allianz bid and Lazard for the hostile bid by Generali of Italy.

"Our mandates reflect a change of generation among the chairmen of French companies, our international presence and the fruits of our investment in the market over the past few years," says Sylvain Hefès, head of Goldman Sachs in Paris.

Michel David-Weill, head of Lazard Frès, dismisses the suggestion that his firm is suffering in the struggle for top position. He stresses that Lazard was among the few investment banks to remain operating after nationalisation in France in the 1980s, and inevitably found itself with a disproportionate role. He even welcomes the newfound competition.

While question marks remain over the selection of his own successor – following the departure of his son-in-law, Edouard Stern, earlier this year – he last month resolved doubts over the absence of a younger generation of partners at Lazard by appointing five new ones, including three aged in their 30s.

Yet some observers still question the potential conflicts of interest at Lazard. When Danone announced the sale in October of its grocery businesses for FFr6bn, for example, Lazard advised the French agro-foods group. But it also had a stake in one of the purchasers, Fonds Partenaires, an investment business set up by Mr Stern and in which Lazard has a stake.

On other occasions, the firm has found its connections rather too complete. It was forced to abandon its role as an adviser to Allianz in France, for example, after Antoine Bernheim, one of its partners, launched a bid for AGF in his role as chairman of Generali of Italy.

That said, other banks which could in the past play on the risk of conflicts as a marketing device have become more vulnerable themselves with the explosion of business. Goldman Sachs, for instance, is advising GAN on its privatisation. But by helping AGF broker a friendly takeover by Allianz, it may have contributed to eliminating two of the most likely purchasers of the company from the market.

The chairman of one French group says that he was very tempted to dismiss one of the banks advising him in the wake of a recent conflict of interest. He only pulled back because he was so close to making a significant transaction that it would have proved highly disruptive to do so.

Another concern among investment banks is how long the wave of mergers and acquisitions will last – and their commissions diminish accordingly. The Asian crisis has helped dampen interest in the equity markets, and once the present period of consolidation is complete, new corporate deals may wane.

Some are responding by attempting to diversify their activities, placing a renewed emphasis on building their capital markets activities, creating new financial instruments, or making direct investments in property or other assets.

But in the next few months, they may not have to look very far to find one of the most important sectors set for restructuring, financial services. After the shake-out in insurance, the relatively low profitability and small market capitalisation of French banks makes them vulnerable targets.

CIC, the state-controlled regional banking network, is now in the process of being privatised. Banque Hervet and Société Marseillaise de Crédit may well follow, and the preparations for a sell-off of Crédit Lyonnais are also advancing.

Paribas, which recently launched a buy-out of the minorities in its subsidiary Compagnie Bancaire, is still subject to regular bid rumours, and the fact that Axa-UAP holds large stakes in both it and BNP has triggered suggestions that a shake-up will occur. Crédit Commercial de France and Natexis are also regularly cited as candidates for takeover. The fees for investment banks are not set to dry up quite yet.

FOREIGN OWNERSHIP • by David Owen in Paris

Choice between two ideals

The root of the dilemma is the rising level of foreign ownership of companies

Independence and solidarity are time-honoured French preoccupations. But they are not always easy to reconcile. This is certainly the case in the related fields of pensions and corporate ownership, where it looks increasingly as though the country will have to choose between one ideal and the other.

The root of the dilemma lies in the high – and rising – level of foreign ownership of listed French companies. A recent Bank of France survey covering about 60 per cent of French stock market capitalisation put the proportion in the hands of non-residents at the end of June at 43 per cent. Monique Chocron, a Bank of France statistician, however, thinks the actual figure is rather lower. "Thanks to the exhaustive annual balance of payments statistics, one would be led to think that this figure is too high and that the current proportion is about one third," she says.

What is not in doubt is that the current level is high enough to be politically sensitive. The recent disclosure that foreign ownership of the share capital of Elf Aquitaine, France's largest industrial company chaired by Philippe Jaffré, had reached about 50 per cent was followed by a series of articles on the topic. These included one by Edouard Balladur, the former prime minister, on the front page of Le Monde raising the question: "Is there still a French future for our companies?"

The chief explanation for the current trend lies, clearly, in the level of demand from foreign institutional investors for French equities. By contrast, there is relatively little corresponding domestic demand because of the way the pension fund sector has traditionally been structured.

Simply stated, the social security contributions of the working population are used to fund the pensions of today's French pensioners under pay-as-you-go schemes, rather than being squirrelled away as savings until the day contributors themselves retire.

This system has the virtue of republican solidarity, with one generation of French workers directly supporting another. But it creates no stream of long-term investment capital suitable for investing in French and non-French equities. "The peculiarity here is that there are no structural investors in French shares," says Patrick Artus, chief economist at the Caisse des Dépôts et Consignations, a state-controlled financial institution. The life assurance schemes that are widely used as a fiscally advantageous alternative to complementary pensions are mainly invested in government bonds.

Another consequence of this shortage of domestic equity investors is that even many quoted companies are under-capitalised. According to Sylvain Hefes, Paris-based managing director of Goldman Sachs, overall stock market capitalisation as a proportion of gross domestic product is "far, far higher" in the UK than in France. "Big French companies lack capital," he says. "There is a great deal of fear that French companies are vulnerable to takeover."

'Is there still a French future for our companies?' asked Edouard Balladur (left) after Philippe Jaffré's (right) disclosure about Elf Aquitaine's 50 per cent foreign ownership

It would be wrong to suggest the present situation constitutes some sort of crisis – even from the viewpoint of dyed-in-the-wool nationalists. The foreign institutions that now hold about half Elf's shares, after all, are hardly likely to seek to undermine its independence to the extent of banding together to impose their control on the company.

Nonetheless, it is true that such investors are exerting a mounting influence on the way big companies are managed. This was illustrated graphically in the summer when measures reinforcing the independence of Eramet, a metals and mining group, from its biggest shareholder were approved at its Paris annual meeting, even though this shareholder is state-owned and holds 55 per cent of the company.

It is more generally apparent in the increased emphasis given by many French companies to the notion of shareholder value, with bottom-line growth increasingly prioritised over increments in turnover. One Paris-based investment banker says: "Chairmen may not like it, but they respect that shareholders do exist and that you have to treat them as they expect to be treated. That really is a major change; they are much more shareholder-oriented than they were even two years ago."

With the return on equity generated by French companies still much lower than that of their US counterparts (see chart), observers expect actions designed specifically to lift earnings per share to be a continuing feature of coming years.

These are likely to include share buybacks – as already conducted by Elf. Mr Artus also expects French groups increasingly to refocus on a smaller number of activities in which their market position is strong enough to help keep returns high. "If a big company sells an arm that is less profitable than the others, it automatically improves its average rate of return and can use the proceeds of the sale to repurchase its own shares."

One frequently advocated way of keeping foreign ownership of French companies under control, and hence limiting the influence of Anglo-Saxon institutions, would be to encourage the development of private pension funds. This would be one way of creating the structural French investors that are currently lacking. It would also address the problem of under-capitalisation. It is one of the steps proposed by Mr Balladur, who argues that "the larger the mass of French savings available for investment, the more powerful will be our means of intervention and defence".

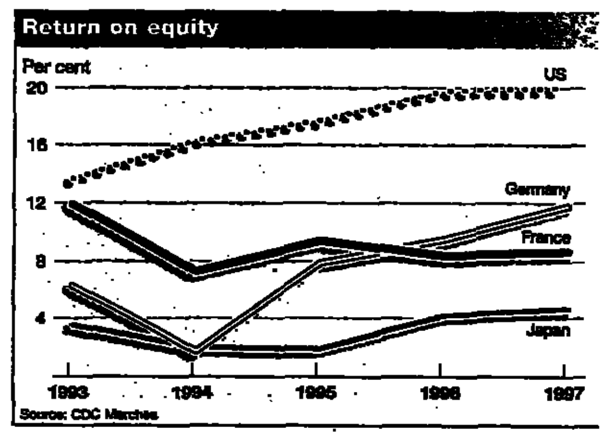
What such a step would not do is remove the current pressure on companies to improve their bottom-line performance; there is no reason why French institutions should be any less demanding in this respect than their Anglo-Saxon counterparts.

The previous centre-right government tried last year to move in this direction, with the result that a draft law designed to create top-up pensions for private sector employees was approved by parliament in March. But the detailed text that would have allowed the law to be implemented was never published. The new Socialist-led government is now conducting a consultation exercise on changes to this draft law. This followed the announcement by prime minister Lionel Jospin in his general policy speech in June that the law would be "called into question" partly because it risked undermining the existing pay-as-you-go system. "Solidarity is practised first and foremost between generations," Mr Jospin said.

A book* published this year by Pierre Moscovici, now European affairs minister, provides an interesting insight into Socialist thinking on the subject. After arguing that "pay-as-you-go is beyond all question the fairest and most effective mechanism", Mr Moscovici nonetheless allows that retirement savings can offer "numerous advantages", provided they are clearly complementary to – and not designed to replace – the current system. He describes this as "the cardinal condition" for their introduction. He also calls for an obligation for the funds to be invested in France, "at least for a large majority of the portfolio - or, at the very least, in the European Union".

Maybe France is finally poised to trade a little bit of solidarity on pensions for the sake, partly, of bolstering the independence of French companies.

* *L'Urgence - plaidoyer pour une autre politique. Published by Plon. Price FFr98.*



FOOTBALL FLOTATIONS • by David Owen in Paris

Bourse very keen to go for goal

Not everyone is happy with the calls to reform football club finances

Will 1998 be the year of the first stock market flotation by a leading French soccer team?

Reforms, widely expected to be implemented next year, would allow French sports clubs to structure themselves as ordinary public limited companies. This would enable them, in turn, to start paying dividends to attract private capital.

Once that happens, it is generally accepted that the first initial public offering of a top French team would be only a matter of time.

The Paris Bourse says it is "very keen" to attract French football teams and thinks four or five clubs might be suitable. Gérard Lefillatre, general manager of Stade Rennais, a side from Brittany in western France, suggests that "all French clubs envisage that possibility".

Clubs, which have traditionally been run as non-profit-making companies with participation from local communities, are managed under one of three statutes. But they complain that the present structures – one of which dates from 1901 – leave them unable to compete financially with top clubs in countries such as Italy, England and Spain. As a result, they argue, the most talented French players are increasingly moving overseas.

The aim of the reforms, in their eyes, would thus be to prevent French clubs from falling behind their main European rivals.

In the words of Bernard Gardon, general manager of Racing Club de Strasbourg, one of the top French football teams: "The goal of the operation is to be able to fight other clubs with our heaviest weapons. Otherwise, we will be the poor relation of European football."

Gervais Martel, president of both Racing Club de Lens, a northern French team, and the Union of French Professional Clubs, warns that if reforms are not enacted "we will continue to lose ground".

Serge Mesonès, a former captain of Auxerre who is now football representative in the office of Marie-George Buffet, France's Communist sports minister, acknowledges that a "grooming" of the current 1984 law is planned, but says it is not inevitable that clubs will be allowed to become plcs.

He emphasises that, in philosophical terms, such a move would be "the complete opposite" of what they believed in.

Nevertheless, he says, the government would have to take account of reality. What had made the difference between 1984 and 1997 was "the intrusion of money into sport".

Some other leading French football figures also have reservations about the possible consequences of the changes top clubs are pushing for.

Michel Platini, the brilliant French midfielder of the 1980s who is now co-president of the French World Cup organising committee, says it would annoy him if in a few years' time football fans, asked how their club had got on, replied that the shares had gone up, say, 2 per cent, rather than giving the result of a match. "The vocation of football clubs is football", he says.

That may be so, but the need for new sources of financing is increasingly pressing. If the first French football flotation does not come next year, chances are it will before the end of the millennium.

Michel Platini: 'the vocation of football clubs is football'

REGULATION • by Andrew Jack in Paris

Closed doors attract criticism

Supervisory bodies have done themselves no favours with their opaque approach

It does not require a very intensive search to unearth the considerable challenges facing the supervisors of the French financial markets, and the other entities that control the country's multiple regulated sectors. The past few weeks have provided plenty of examples.

Take November 24 this year. After periodic surges on the back of rumours in the previous few months, the shares of Compagnie Bancaire, the specialist financial services group, jumped more than 5 per cent, on a da y that the CAC-40 index fell 2 per cent. There were smaller increases in the shares of Paribas and Cetelem.

Two days later, Paribas officially unveiled the details of its plan to buy out the 49.8 per cent of Compagnie Bancaire that it did not own at a healthy premium, while Bancaire announced the same for Cetelem, its own subsidiary in which it has a 67 per cent stake.

If there are any suspicions about insider trading, it should be a matter for the Commission des Opérations de Bourse (Cob), the stock markets watchdog, to investigate. But as a result of a new policy, the Cob will not even confirm whether an inquiry is under way – not even to the shareholders' associations – let alone comment on the results.

After all, it was only on December 1 this year, following publication in the morning edition of Le Parisien that inquiries were under way into the management of the insurance group GAN, that the Cob revealed it had undertaken an investigation in 1994 into the subject. Conclusion: no case to answer.

Such incidents are nothing new. In an example which helped trigger the Cob's reluctance to communicate, it confirmed in late 1995 that it had opened an inquiry into possible share manipulation and insider trading by banks involved in Eurotunnel – albeit dating to a rights issue at the start of 1994. Several months later, it concluded that there was no case for further action.

Disciplinary action – even occasionally against powerful stock market investors – does take place. But most reprimands tend to be against smaller investors. These may be the individuals who are more likely to transgress the boundaries of illegality. But they are also less likely to have political clout, or access to expensive lawyers able to defend or advise them well.

It is clear that the Cob's powers of investigation and pursuit are limited, and equally that not all suspicions turn out to be true, or lead to sufficient proof to justify legal action. But the institution charged with the protection of individual investors has done itself few favours with its opaque approach.

It was particularly embarrassing, for example, that the Cob raised no objections in late 1996 to the proposed buy-out of minority shareholders in Immeubles de France by Crédit Foncier de France: a move designed to prevent the parent company from running into financial difficulties. It was rather the Conseil des Bourses de Valeurs (CBV), the self-regulatory stock market body, which intervened to prevent the takeover taking place.

More recently, it was not the Cob but rather the CBV's successor body, the Conseil des Marchés Financiers (CMF), created just one year ago, which intervened in the takeover battle for the retailing group Casino. It demanded disclosure from its "white knight" Rallye of plans for warrants it held.

While the CMF may have made a judgment in the interests of shareholders, it faces the wrath of Promodès, the hostile bidder for Casino, on other grounds – notably that it permitted Rallye's complex and initial friendly bid to proceed even after Promodès came back with a higher offer. The protagonists will now settle the matter in a ground-breaking court judgment in January.

That is not to say that all criticism of the CMF – or of the Cob – is justified. This is particularly the case in the context of takeover battles where so much money and such important reputations are at stake. Clearly, the bulk of the organisations' work takes place behind closed doors, preventing potential abuses of stock market rules before they are ever converted into formal, public offers.

But their unclear and overlapping powers, and the lack of transparency in their operations, make them targets at a time of intense and often hostile stock market activity.

However, criticism of French regulators is spreading far more widely than the financial markets. Take the state Insurance Commission, which in early December had still not ratified the hostile takeover bid made in mid October by the Italian insurer Generali on AGF.

That led many to suspect political interference, with the government attempting to stall the offer while AGF found a friendly alternative bidder, or at least to give the impression of intervening to placate concerns voiced by left and right parties of foreign takeovers of French companies.

The effectiveness and independence of action of the insurance and the banking commissions has also been called into question by the huge recent rescue packages unveiled for state-owned enterprises. Years of apparent negligent management before action was taken has resulted in bills for French taxpayers of up to FFr150bn for Crédit Lyonnais, and well over FFr20bn for GAN.

Unveiling the annual report of the Cour des Comptes, the public sector watchdog, in late November, Pierre Joxe, the president, was critical of the operation of a series of government regulatory bodies. There again, his own has been criticised for its ineffectiveness. And its report on Crédit Lyonnais was only released in 1996, long after the problems had finally been addressed.

INSURANCE • by Andrew Jack in Paris

Foreigners tread on sacred ground

The tightly-knit sector has been riven by takeover activity involving foreign groups

Rifts have opened wide in France's tightly-knit insurance market. In the space of a few months, the sector has undergone volcanic pressures which are radically transforming the landscape.

The starting point was Axa, the French group which is quoted but until recently was controlled by a network of mutual insurers. It had long made a name as a hungry buyer of foreign insurance groups – notably in the US, Australia and the Far East.

But perhaps the greatest reverberations it caused – at least across France and the rest of Europe – came with its takeover of UAP, the state-owned group privatised in 1994. The deal was officially ratified by shareholders of the two companies at their annual meetings earlier this year.

The effect was to break an important psychological barrier, by showing that France's once sacrosanct and formerly state-owned insurance giants were vulnerable to attack. It was also to create a shift in the balance of power across the continent as Axa's rivals considered the implications of the increasing strength of their weighty competitor.

Axa also helped to create the conditions for foreign groups to enter the French market. As part of its restructuring to prepare for the UAP operation, it unwound its long-standing cross-shareholding with Generali of Italy, freeing the latter to pursue its own activities in France.

Generali began courting Worms & Compagnie, a holding company with assets including Athéna, the relatively small but highly profitable insurance business. Worms has decided that Athéna needed to be part of a larger insurance group, and resolved to launch a competition to attract the best price.

Meanwhile, Allianz of Germany concluded its bitter, long-running feud with the holding company Navigation Mixte – since taken over by Paribas – and acquired full control of their jointly-owned French insurance activities. It appointed as their head Dominique Bazy who left UAP shortly after the Axa merger.

The stage was set for a complicated series of autumn manoeuvres. They began from an unexpected quarter. François Pinault, the financier better known for his control of the retailing giant Pinault Printemps Redoute, struck first.

In September, he took the unusual step of launching a hostile takeover of Worms. His plan was to sell off other activities and use Athéna as the first step in the creation of a French insurance "pole".

To it he hoped to bring AGF, privatised in 1996 and frequently cited as a takeover target. Together, they could bid for GAN. This state-owned group was subject to a FFr20bn rescue plan announced by the French government in February, a central condition of which was privatisation by summer 1998.

AGF had another attraction for Pinault: a significant stake in Worms that could help his bid against the holding company to succeed. He met Antoine Jeancourt-Galignani, AGF's chairman, to propose selling him Athéna in exchange for a 25 per cent stake in AGF.

But AGF, which had already entered a bid for Athéna, considered the price too high and was reluctant for a single investor to hold such a large proportion of its own capital. It believed it could continue to exist as a stand-alone company – especially if its bid for GAN succeeded.

AGF opted instead to co-operate with Worms, putting together an alternative friendly bid to block Pinault's offer by linking up with the holding company's family shareholders and Ifil of Italy. Under the deal, it would take control of Athéna.

Faced with such high odds of failure, François Pinault ultimately withdrew his offer. But the bid had destabilised the uneasy equilibrium of the French insurance market. Frustrated at the prospect of losing Athéna, Generali struck back with an even more surprising move.

The Italian group launched a takeover bid for AGF which broke many records: at FFr55bn, it was a huge deal by any standards. It was bold because it was hostile – an event rare enough in France – and all but unprecedented because it was a hostile bid by a foreign group.

The move triggered a political backlash, generated by fears of a foreign takeover of French companies. The ministry of finance and economics dragged its feet over providing the necessary approvals, preventing the Generali offer from being formally declared open.

Whatever the reasons, the delays gave AGF time to look for an alternative. At first, the company hoped that an accelerated sale of GAN to it would prove sufficient to intimidate Generali or other predators. But speeding up the privatisation or guaranteeing that AGF would be the winning bidder proved impossible.

It talked to existing shareholders and other financial institutions – including mutual insurers in France, and banks and insurers in the UK, the Netherlands and the US – in an effort to find a partner. But they were reluctant to come up with sufficient money to save AGF.

Allianz – which had already courted AGF last year with the idea of taking a 30 per cent stake – was more willing. It agreed to take 51 per cent control, maintain the corporate headquarters in France and remain in a minority on the board. Faced with few alternatives and a continued refusal by Generali to negotiate Mr Jeancourt-Galignani agreed.

That leaves the questions of how long AGF can expect to retain its relative autonomy as well as the decision of the French government on whether Allianz's offer is acceptable. If the government makes such a judgment too rapidly, it will only reinforce the view that it deliberately stalled when considering Generali's offer.

The purchases of the past few months also open the way for a tumultuous conclusion for GAN. Plagued by new suggestions that its cumulated losses since 1991 may be as high as FFr50bn, the final French state-owned insurer will not face an easy road to privatisation.

Antoine Jeancourt-Galignani: rebuffed Generali's offer in favour of a takeover by Germany's Allianz